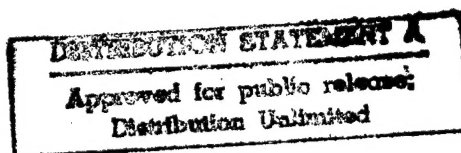


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**FOREIGN  
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# ***JPRS Report***



# **China**

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# China

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## UNITED STATES

### U.S. China Policy Since 1972 Analyzed, Recommendations for Future

OW1407201789 Beijing GUOJI WENTI YANJIU

[INTERNATIONAL STUDIES] in Chinese

No 2, 13 Apr 89 pp 25-31

[Article by Zhuang Qubing 8369 0637 4016: "A Review of U.S. Policy Toward China Since 1972 and Its Prospects"]

[Text] The new U.S. President Bush visited China in late February this year after attending the "grand funeral" of Japanese Emperor Hirohito. On his flight to Asia, President Bush spoke of his "hope for a friendly U.S.-Chinese relationship, a relationship that will further develop in a steady and sustained manner." He said that "this kind of relationship is the basis for balanced U.S. foreign policy." The Chinese and American leaders carried out extensive talks in Beijing, which undoubtedly had great significance in cementing friendly relations between the two countries. Sino-U.S. relations is a major international event. It has been 16 years since President Nixon reopened the door to a friendly Sino-U.S. relationship and 10 years since China and the United States formally established diplomatic relations. It is time for a general review of U.S. policy toward China and the development of Sino-U.S. relations in the intervening years. At the same time, it will probably benefit the further development of Sino-U.S. relations to analyze changes, as well as to study present U.S. policy toward China and its prospects.

#### I. From Nixon to Reagan

Since 1972, the kind of policy the United States has been promoting toward China chiefly proceeded from the necessity of geopolitics and requirements of national interest; very often ideology played a considerable role. Specifically, there are five major factors which affect the policy of the United States toward China. First, global strategy and security. Second, the Taiwan issue. Third, the Sino-U.S. economic relationship. Fourth, China's policy toward the United States. Fifth, domestic politics of the United States. These five factors are interrelated; one particular factor may play a more important role than the others at different times. However, as a whole, from President Nixon to President Reagan and even to the present, the factor of global strategy and security very often plays a dominant role when it comes to issues relating to China, although there are times when other factors come into play.

The U.S. policy toward China can roughly be divided into three periods since Nixon's trip to China.

##### A. 1972-1980 Emphasis on Strategic Relationship

The global rivalry between the United States and the Soviet Union has undergone tremendous changes since the end of the World War II. In the 1960s, the Soviet Union, taking advantage of the United States in its involvement in the war of aggression against Vietnam, stepped up expansion, thereby putting the United States in a very unfavorable position. After the break in relations between China and the Soviet Union, Nixon took the opportunity to improve the Sino-U.S. relationship, and the global strategic situation underwent changes as a result. The changed global strategic situation benefitted the United States because it not only let the United States shake off the burden of confrontation with China, but also made the Soviet Union feel threatened from both sides. It not only lessened the impact the United States suffered from the defeat of the Vietnam War and created a situation of cooperation between China, the United States and Japan, but it also helped stabilize the Asia-Pacific region, and enabled Washington to enhance its strength against the Soviet Union in arms control talks and on European issues. Nixon also made use of the breakthrough in relations between China and the United States to reach agreement with Brezhnev on arms control, thus heralding a period of "detente" (1972-1979) between the United States and the Soviet Union.

The establishment of liaison offices in China and in the United States in 1973 further promoted the ongoing process of normalization of relations between China and the United States. Ford became President after the Watergate incident. He copied and followed the policy of his predecessor. In the early term of his presidency, Carter tried to strike a "balance" in policy toward China and the Soviet Union. He characterized relations between the United States and the Soviet Union as "competition as well as cooperation." When the second round of strategic arms limitation talks hit a snag, after the intervention of the Soviet Union in the horn of Africa, and particularly after the invasion of Afghanistan, Washington, in a bid to strengthen its position against the Soviet Union, also adopted some new measures in its policy of aligning China to oppose the Soviet Union. Presidential aide Brzezinski and Defense Secretary Brown visited Beijing in May 1979 and January 1980 respectively. China and the United States declared in December 1978 that both countries would establish formal diplomatic relations on 1 January 1979. Brzezinski stressed: Sino-U.S. relations are based on a "long-term strategic point of view." Brown proposed the issue of the sale of "nonlethal" weapons. At a time when Sino-U.S. relations developed rapidly, the "Taiwan Relations Act," which was adopted by the U.S. Congress and signed by President Carter in March 1979, cast a shadow over bilateral relations.

##### B. 1981-May 1983 Turbulence and Exploration

During his early presidency, President Reagan planned to develop a strategic relationship with China on the one hand, and on the other tried to promote the "Taiwan Relations Act" and strengthen substantive relations with



the Taiwan authorities. He was trying to kill two birds with one stone. At that time, the problem of weapons sales to Taiwan, a problem left over from the previous administration, had become acute. China and the United States engaged in fierce argument. After talks that stretched for 10 months, both sides finally reached the "17 August" joint communique in 1982. According to a U.S. report, Reagan basically adopted a proposal made by former Secretary of State Haig in a 1981 memorandum. Testimony of Under Secretary of State Stoessel at the Senate further revealed that the reason for the change in U.S. attitude was the assessment that Sino-U.S. relations faced "real danger of breaking up," and that the imposition of martial law in Poland forced the United States to rely more on China to counter the Soviet Union.

The "17 August" joint communique brought about a relaxation in tensions between China and the United States. This in itself was a major achievement. However, bilateral relations did not see great improvement. Continued friction over the sale of weapons to Taiwan as well as the "Hu Na incident" [Hu Na, a young woman tennis player from China who tried to seek political asylum in the United States], and the case of the Hu-Guang railway bonds further riled relations between the two countries. Opinions also varied within the U.S. Government. Washington gradually noticed the readjustment in China's foreign policy. In the latter part of 1982, China and the Soviet Union began vice ministerial-level consultations. Meanwhile, the Reagan administration began to consider a change of policy on China. In February 1983 Reagan sent George Shultz to visit Beijing. This was an important show of exploring new ways to seek reversal in bilateral relations. It finally culminated in the birth of the "new realism" policy.

#### C. May 1983-1988 "New Realism"

After mid-1983, Sino-U.S. relations began to stabilize, thanks to the joint efforts of both sides. Progress was achieved in stages. Meanwhile, convergence of opinion within the American Government on policy toward China began to appear. The improvement of the Sino-U.S. relationship first showed in U.S. relaxation of technological transfer to China. Then followed the exchange visits of Weinberger, Wu Xueqian, Zhang Aiping and other senior officials. More significant were the exchange visits of China's Premier Zhao Ziyang and U.S. President Reagan in 1984. The "new realism" of the United States in its policy toward China first showed in Shultz's San Francisco speech on 5 March 1983 and in the speech of Assistant Secretary of State Wolfowitz in Singapore. The characteristics of this new realism in policy toward China can be seen as follows:

1. Instead of emphasizing "strategic relations," it underscores "long-term, lasting, and constructive relations." It maintains that the United States should make a more realistic estimate of the "specific global principles" of China's foreign policy. Although China is an "important

actor" on the world stage, the United States should give more consideration to China's regional role than its role in the United States' global strategy so that China can play "a more constructive regional role." Washington also holds that other countries, especially Japan, should play a greater role in the Asia-Pacific area. "No longer is Japan simply the cornerstone of U.S. Asian policy, but a major partner of the United States in the world arena."

2. Recognizing the common interests of the United States and China, it also acknowledges the difference between the two countries. Making an effort to reduce friction on some bilateral issues and not to irritate China, it also upholds the reciprocity principles.

3. It diversifies the development of Sino-U.S. relations; it places greater emphasis on developing political, economic, and cultural relations; and supplements them with military relations so that they will enhance one another and bring about invisible strategic relations. It maintains that although China and the United States follow different policies, the two countries have parallel interests in containing Soviet expansion. It also maintains that, following the development of the two countries' political, economic, and cultural relations, and after China has been more actively involved in international economic activities, the United States and China can not only maintain their relations on a long-term basis, but also "lay a solid ground for security cooperation in the future." Under these circumstances, the United States began to provide a limited quantity of military technology and weaponry to China and the two countries' military relations are maintained.

4. It sees to it that the status quo of U.S.-Taiwan relations are maintained, and that Taiwan issues are "handled" on the basis of the "Taiwan Relations Act," the "six guarantees" the United States has promised Taiwan, and the three Sino-U.S. joint communiqués.<sup>1</sup>

It should be noted that, in addition to improving bilateral relations for the sake of ensuring long-term interests, the policy readjustment by the Reagan administration was based on Washington's notion that the strategic situation and parity of U.S.-USSR military strength in recent years became more favorable to the United States and less favorable to the Soviet Union. The USSR was deeply bogged down by economic stagnation, the heavy burden of military and overseas expenditures, and political instability caused by frequent replacement of top leaders. Because the United States believed it was stronger than before, it did not have to rely on the "strategic relations" with China so much. Nevertheless, because of the Reagan administration's geopolitical and security considerations, the Soviet factor must continue to play an important role in the United States' China policy. This was inevitable. After 1985, tense U.S.-Soviet relations became more relaxed. But in his report "The United States' National Security Strategy" to the U.S. Congress in January 1988, Reagan still stressed that, although the U.S. national security strategy has been

revised under various administrations, "the United States' central interests and aims have remained virtually unchanged." The United States' "general strategy vis-a-vis the Soviet Union remains one of containing the Soviet Union's expansionism." The report also lists "the strengthening of relations with the People's Republic of China" as one of the eight major measures for maintaining "the security between the United States and its allies." The report says: "Although the two countries' economic, social and political systems are different, we hold the same views as to the need for maintaining stability in this region and opposing expansionism. On this basis we will continue to increase our trade and people-to-people contacts, and even limited military cooperation on defense. Although we still have differences on certain issues, we will continue to develop our mature relations which are apparently useful to both of us." The United States' China policy and its measures that can be observed here are well thought of.

Considerable progress has been made in Sino-U.S. economic and cultural relations in recent years. Bilateral trade between the two countries has increased by an average of 20 percent annually in the past few years. The United States has become the third largest trade partner of China. At the end of 1988, U.S. enterprises had established 630 investment projects in China, totalling \$3.4 billion in contracted agreement. Currently, China has more than 30,000 students studying in the United States. Although there are far fewer American students in China, the number is the largest ever. American people have various views on these developments, but they all set their sights on the interests of the United States itself. For example, the Technology Assessment Bureau of the U.S. Congress holds that expansion of China's economic, technological, and military power had increased its influence in world affairs, and therefore, developing Sino-U.S. relations could prevent the two countries from going their own ways once again because of a conflict of interests, and could increase the export of U.S. products.<sup>2</sup> Others hold that, viewing things as a whole, the strategic and political significance of the United States developing relations with China is greater than the economic significance. U.S. investment in China is less than 1 percent of its total overseas investment, and its trade with China only accounts for 1 percent of its total foreign trade. Therefore, Robert Sutter emphasized that, in the foreseeable future, the general trend is that political and strategic considerations will decide the development of Sino-U.S. relations, and economic and commercial relations will play a less important role. Doak Barnett has also said that, even if Sino-U.S. trade quadruples, it is still insignificant in U.S. foreign trade. However, the political benefits the United States will gain from the expansion of economic relations between the two countries will be much greater than the economic benefits it will gain, because such an expansion of economic relations will prompt China to

continue its pragmatic policy at home aimed at developing its economy, and to pursue a more moderate and cooperative foreign policy.<sup>3</sup> Doak Barnett's view is shared by many others.

As for cultural and scientific exchanges, Oksenberg's view is a typical one. He believes that, although the United States so far has given more than it has taken, exchanges have brought some short-term commercial and scientific benefits. He said that in the long run, we are helping train China's scientific and technical personnel of the future, and they probably will be decisionmakers of the future. This will have deep and beneficial effects for the United States.<sup>4</sup>

The Reagan administration's policy on Sino-U.S. military relations was "a limited one," because this issue is especially sensitive. In 1984, Reagan gave permission for the transfer of a small amount of defensive weapons to China. According to reports from the U.S. side, technology in six areas, including nuclear weapons and their carriers, electronic warfare, and antisubmarine warfare, is not allowed to be transferred. The main reason for this was consideration of the Soviet Union. The intention was that such transfer would enhance the capability to deal with the Soviet Union, but would not trigger a strong response. The policy also took into consideration the impact on Asian countries and Taiwan. A study by the U.S. Congress holds that such military cooperation has always been of a trial nature. For this reason, U.S. military sales to China, despite an increase in amount, have been much lower than to other regions in Asia, such as South Korea. The report also says: "In the worst situation, the current policy on transferring military technology to China will only pose a limited risk for the United States, because China, although having intercontinental missiles that can hit the United States, has some good reasons not to use these missiles."<sup>5</sup>

It can be seen by the above that, from Nixon to Reagan, the U.S. China policy has developed from a simple strategic consideration to political, economic, cultural, and military fields. It has developed from consideration of specific interests to achieving more normal relationships with greater common interests. As a result, relations between the two countries have developed steadily in recent years. Of course, it should also be noted that, a very small number of people are skeptical about or unfriendly toward China. These people have had a negative influence on the U.S. China policy.

## II. The Situation Facing the Bush Administration

Judging from possible trends in the future, the Bush administration will be faced with a three-pronged situation when considering its China policy—that is, the Sino-U.S.-USSR triangular relations, the situation in the Asia-Pacific region, and Sino-U.S. bilateral relations.

First, Sino-Soviet relations have improved. Washington noticed that when there was an inkling of U.S.-Soviet detente and when Western Europe and the Soviet Union were gradually coming closer to each other, the Soviet Union was trying to make a breakthrough in the Asia-Pacific region. U.S. Under Secretary of State Armacost pointed out in June 1988: "China is apparently the focus of Gorbachev's strategy for East Asia." The Bush administration appears to be more cautious than the Reagan administration in dealing with Moscow's "new thinking" foreign policy. The Bush administration has been so at least thus far. Brent Scowcroft, the new assistant to the President for national security affairs, believes that the U.S.-Soviet hostile confrontation might end, but the cold war had not yet ceased. What does the Soviet Union intend to do in regard to China? There is much speculation in the United States. American expert Banning Garrett anticipates the following: 1) dialogue will be strengthened, including meetings of foreign ministers and a summit conference; 2) relations between the two parties will be restored; 3) troops stationed along the border will be reduced through negotiations; 4) economic and trade relations, as well as experience exchange in economic reform, will be expanded; 5) cooperation in culture, the arts, and sports will develop. The Soviet Union takes a positive attitude because its position in its relations with the United States and China depends on the state of Sino-Soviet relations to a considerable degree.<sup>6</sup>

The Sino-Soviet summit is scheduled for May of this year. The normalization of relations between the two countries will become a reality. How will the change in Sino-Soviet relations affect the United States? The widespread opinion in the U.S. Government and among the American public is that the development of Sino-Soviet relations may be limited and gradual and that it will not bring any change of fundamental importance. Many noted American observers say that China and the Soviet Union will not restore their allied relationship, that Sino-U.S. relations are still developing ahead of Sino-Soviet relations, and that the United States does not have to worry too much about improved Sino-Soviet relations being detrimental to its interests. Their reasons for this are that "a conflict of fundamental importance exists" between China and the Soviet Union in important security interests. China has just turned "hostile relations" into "stable relations," and its long-term strategy is to develop its economic strength in order to reduce the degree of imbalance between the Chinese and Soviet military forces. In addition, because it has paid greater attention to the modernization of its national economy, China now relies more on cooperation from the United States, Japan, Western Europe, the Asian allies of the West, and international economic organizations. After all, the room for the development in Sino-Soviet economic relations is limited. Moreover, China is pursuing an independent foreign policy. Although this increases

China's flexibility in gaining advantages from both countries, it will be prudent in improving its relations with the Soviet Union because of its need for economic cooperation with the West.<sup>7</sup>

A report by the U.S. Congress holds that the improvement of Sino-Soviet relations generally will not harm U.S. interests and may even potentially play a positive role. According to the report, China will continue to play a strategic balance role toward the Soviet Union in Asia. In the future, if the Soviet Union expands its military power in Asia, it will increase common ground for China and the United States; if it reduces its military power, it will strengthen the stability of this region, which will be beneficial to the United States. In addition, China and the Soviet Union are carrying out domestic reforms, and their mutual influence will also be beneficial to the United States.<sup>8</sup> In his speech in San Francisco at the end of last year, U.S. Ambassador to China Lord summarized an official viewpoint of the United States.

He said, "Gorbachev is reducing the cost of adventurism and expanding the Soviet Union's interests in a more implicit way. Triangle diplomacy is becoming increasingly ambiguous, and the world is becoming more pluralistic. These trends will continue into the next century, and will unavoidably affect Sino-U.S. relations. However, in contrast to some popular views, I strongly believe that our relations with China will continue to rely on strategic considerations. Compared to the past, this consideration has undoubtedly become more delicate and low key. However, we have common interests in maintaining a global and geographical balance. In addition, the history of Sino-Soviet relations, the geographical conditions of the two countries, and China's attitude toward powerful nations, both near and far from it, are something that will not change. The U.S. view that China's sincerity is extremely important to maintaining a global balance also will not change."<sup>9</sup>

Despite all this, Washington's mentality is a complicated one. On the one hand, it is quite at ease with the improvement in Sino-Soviet relations; on the other hand, it has some worries about this. First, it worries that continued development of Sino-Soviet relations may accidentally bring about strategic consequences which are not in the interests of the United States. According to a report by TOKYO SHIMBUN on 9 January, an official of the U.S. State Department revealed that what the United States is most concerned about is that China and the Soviet Union might have an "alliance relationship" or a "military relationship" in the future. News from other sources shows that the United States is deeply concerned about whether the Soviet Union will withdraw its troops from Sino-Soviet border and deploy them in the western part of the country, which will threaten U.S. interests in Europe and other regions. The United States is also concerned about whether China and the Soviet Union will sign a nonaggression treaty. Second, Washington worries that further improvement in Sino-Soviet relations will politically weaken the

United States' role, narrow the common interests of China and the United States, and reflect China's will to carry out an independent foreign policy. As long as global conflicts do not erupt, China's strategic role in checking the Soviet Union, as viewed from U.S. foreign policy, will be reduced.

The second aspect is the situation in the Asia-Pacific region. Following rapid economic development, the Asia-Pacific region has become increasingly important. Although the United States has many friendly nations in the Asia-Pacific region, which give it advantages in this region, its ability to influence the situation in this region has undoubtedly weakened. Before his trip to Asia in February, Bush proclaimed, "This visit indicates that we plan to continue to be a Pacific nation." He clearly showed the United States' determination to maintain its position in the Asia-Pacific region. Following his speech in Vladivostok in 1986, Gorbachev, in his speech in Krasnoyarsk last fall, not only called for totally normalizing relations with China and holding a Sino-Soviet summit, but also put forward proposals which the United States regarded as an attempt to squeeze into the Asia-Pacific region in order to compete with the United States. These proposals included freezing nuclear weapons and the naval force in the Asia-Pacific region, limiting the activities of the Navy and Air Force, removing U.S. military bases, holding a Asia-Pacific security conference, and turning the Indian Ocean into a region of peace. The Soviet Union's proposals also concern China's nuclear and conventional forces. The Soviet Union has suggested that the Soviet Union, China, and the United States begin to discuss convening an Asia security conference.

Soviet Foreign Minister Shevardnadze also told reporters in November last year that future Sino-Soviet political dialogue will touch on the questions of measures for building trust and military detente in the Asia-Pacific region.<sup>10</sup> Washington is keeping a wary eye on the Soviet Union's new Asia policy. Some observers say that "Sino-Soviet relations are the mainstay of Gorbachev's Asia policy," and they have an impact on both East Asia and South Asia. In recent years, the situation in the Asia-Pacific region has been favorable to the United States in some respects. However, the United States is also facing some new problems in the region. For instance, nationalist sentiments are intensifying in various countries, movements against U.S. bases, troops, and nuclear weapons are frequent, reaction to U.S. trade protectionism is intense, and the relations between some Asia-Pacific countries and the Soviet Union are constantly growing. All this is making the United States feel pressure.

The United States thinks that it shares some common interests with China over many issues in the Asia-Pacific region. However, in order to keep consolidating its position in the Asia-Pacific region under the rapidly changing situation and prevent its position from being

weakened by the gradual changes in Sino-Soviet relations, the United States deems it necessary to coordinate with China with respect to each other's Asia-Pacific policies. A report written recently by Robert Manning fully reflects such a policy viewpoint. According to Manning, once the Afghanistan and Cambodia issues are settled, the important areas of policy coordination between China and the United States will be reduced. In addition, the two countries hold different views on Japan, and some contradictions exist in the relations between them. These facts will make China intensify its policy of self-reliance. As a result, "Beijing will become more susceptible to Soviet proposals." For this reason, the United States needs to "reestablish a consensus" with respect to East Asia's security structure.<sup>11</sup>

The third aspect is Sino-U.S. bilateral relations. The Reagan administration pursued a "new realistic policy toward China" and made the relations between the two countries grow steadily. However, some problems, both old and new, still exist in the bilateral relations. Needless to say, those problems play a negative role in the development of Sino-U.S. relations. After the United States and the Soviet Union entered a stage of new detente in the middle of the 1980's, some new differences and friction happened between China and the United States, and more criticism against China came from across the Pacific Ocean. Some American scholars and experts think that it is mainly because the Soviet threat to the United States became smaller, making the United States strategically less dependent on China than before and giving the United States less "motive" to "yield to" China.<sup>12</sup>

According to Hong Kong's FAR EAST ECONOMIC REVIEW, in the latter years of the Reagan administration, some people held: "The time for the United States to formulate its China policy based on its global strategy is over. Under the present situation, it must consider many questions when it formulates its China policy, such as the questions concerning arms proliferation, transfer of technology, and human rights."<sup>13</sup> During that time, some unpleasant things happened between China and the United States. The United States for a time suspended the examination of further relaxing the technological transfer restrictions on China. U.S. research organizations admitted that abortion, human rights, and Tibet were "three annoying issues raised by Congress."

The Taiwan issue remains an important issue. Robert Scalapino said recently, "Taiwan will continue to be a point of friction in our relations with Beijing." To China, the country's reunification is always the most important thing. The United States acknowledges that there is only one China and has no objection to China's policy of "one country, two systems." On the question of reunification of the two sides of the Taiwan Strait, the United States maintains a noninvolvement position and has not taken any positive action. However, it continues to provide military technology to the Taiwan authorities in disregard of the "7 August Communiqué."



Problems existing in the economic relations also merit attention. China has not yet become a completely equal economic partner of the United States. Although the U.S. restrictions on technology transfer have been somewhat eased in recent years, China remains restricted by the regulations set by the United States during the "cold war" era. China still cannot enjoy general preferential treatment; the U.S. new trade law is rather unfavorable to China's exportation; and a Sino-U.S. treaty to guarantee investment has not been negotiated. In recent years, there has been a louder voice in the United States urging the new administration to make active efforts to promote Sino-U.S. relations in various fields for the benefit of both sides. A report by the U.S.-Chinese relations committee, written by Nicholas Lardy earlier this year, stressed that under the new situation of diminishing Soviet threat, the economic factor has become increasingly important in Sino-U.S. relations. The report called for subsidizing Chinese exporters, further relaxing the restrictions on technology transfer to China, and sponsoring China's membership in the General Agreement on Tariffs and Trade in order to strengthen the U.S. position in competing with Japan and Western Europe in China and improve major strategic interests in Sino-U.S. relations.<sup>14</sup> Oksenberg also pointed out that the rapidly developing bilateral relations are confronted with a "strategic as well as economic challenge," and that "we should closely consult with the Chinese in order to ensure clear understanding by both sides as to why and how bilateral cooperation can enhance their respective security interests."<sup>15</sup> In short, all the above problems remain to be studied and discussed by the Bush administration.

### III. Overall Observation

The current international situation is undergoing a new period of changes, and many countries in the world have been reviewing and readjusting their policies not only for the current needs but also for those in the next century. The United States has been constantly developing its policy toward China. As the normalization of Sino-U.S. relations enters its second decade, a review of the past and a look to the future may provide the following overall views:

A. For a long time, the main starting point of the U.S. policy toward China has been that to establish and develop friendly and nonaligned relations with a strong and stable China conforms with the fundamental interests of the United States. Sino-U.S. friendship is indispensable for the security and stability of the Asia-Pacific region as well as the world as a whole. Of the various factors affecting the U.S. policy toward China, considerations for the global strategy and national security have always been given top priority, although the contents for such considerations are different from before.

B. Objectively, the favorable conditions for developing bilateral relations have always existed. Since 1972, Sino-U.S. relations have developed continuously, primarily

because, in spite of contradictions, there are no conflicts in basic interests, only needs from both sides; that is, there is more common ground than there are differences. Moreover, experience from the contacts over the years, including some twists and turns, has enabled the United States to formulate a more practical policy toward China. At the same time, the two political parties in the United States have shared a relatively identical view toward China, while the Chinese side has attached importance and made active efforts to develop friendship between the two countries. China's policy of reform and opening to the outside world will not change. Based on this, there undoubtedly remains great potential for further developing bilateral relations. This has been confirmed by many public figures in the United States. President Bush's visit to China last February may well be a reflection of such a trend.

C. Under the multipolar trend among the forces in the world, and in view of the declining military role and increasingly important role of economy, science, and technology, the interactions of the Sino-U.S., Sino-Soviet, and U.S.-Soviet relations have weakened, but will not disappear. With the improvement in the relations between the three countries, the triangular relations have become more balanced than before. At the same time, even with changes in interaction, there will still be differences in the degree of closeness in their relations, which will undergo delicate changes.

D. Under the new situation, the United States must continue to take the Soviet Union as its adversary. In addition, it must also face political and economic competition from more countries than before. Since Washington's influence has somewhat declined, it must apply more "balanced diplomacy" tactics. According to such tactics, the United States may cooperate with China and it may also hold China down. More and more such thinking has been seen in the speeches of some American brain trusts. Raymond Garthoff, a former American representative at disarmament talks, pointed out in his book, "Detente and Confrontation": In the early 1970's, the United States established closer relations with China while striving to achieve detente with the Soviet Union; as a result, its role became much greater. When U.S.-Soviet relations were drastically worsening in the late 1970's, the United States strived to improve its relations with China in order to oppose the Soviet Union. As a result, its role seriously weakened. At the same time, China took the opportunity to improve its relations with the Soviet Union. Consequently, China and the Soviet Union, particularly China, got the upper hand in the Sino-U.S.-Soviet relations. From now on, the United States "should seek a greater balancing role." The most important thing is that it should not unite with either of them so as to prevent the improvement of relations with the other from being obstructed.<sup>16</sup> Brzezinski, James Chase, and some others have advocated that the United States should maneuver among China, the Soviet Union and Japan in the Asia-Pacific region so that they hold one another in check. In his open "memorandum" to

President Bush, Kissinger suggested that in order to maintain the balance of power in Southeast and North-east Asia, the United States in the 1990's should take a stand "similar to the stand taken by Britain in the past toward the European continent."<sup>17</sup>

E. Contradictions and differences are unavoidable between China and the United States because the two countries are different in situation, system, and interests. When George Shultz was U.S. secretary of state, he once said: "The interests of China and the United States do not always run parallel." What is important is how to properly handle and solve the problem. Friendly relations need constant maintenance. Agreements can be reached over many issues, so long as the two countries adhere to the five principles of peaceful coexistence and use them as a basis, abide by the three joint communiques, and make more consultations to enhance understanding in a spirit of equality and mutual benefit. One example is the "17 August joint communique," and another example is the consultations in recent years on launching U.S. satellites with Chinese rockets. In addition, China and the United States have recently reached a shipping agreement. The relations between the two countries can be further promoted if the United States will take some new steps to facilitate early reunification of Taiwan and the China mainland.

F. In the course of developing Sino-U.S. relations, it is of course necessary to pay attention to eliminating some factors that are detrimental to the relations between the two countries.

In short, the China policy of the United States is a complex question involving many things. However, people have reason to believe that the importance of the policy, the common interests and needs of the two countries, and the trend of the times will surely make the United States develop its China policy in a direction favorable to the people of the two countries.

#### Footnotes

1. "The Resurrected Eagle," by Banning Garrett and Bonnie Glaser, "From Nixon to Reagan: The Change of the Chinese Role in U.S. Strategy" Little, Brown and Company, 1987.
2. Assessment Bureau of the U.S. Congress on technology transfer to China, July 1987.
3. "China's Economy From a Global Perspective," by Doak Barnett, published by the Brookings Institution, pp 569 and 570, 1981.
4. U.S. "Scientific and Technical Issues", Spring issue, 1985.
5. See footnote 2.
6. Statement by Banning Garrett and Bonnie Glaser during their visit to China in March 1986.
7. "The United States and Southeast Asia," written by Robert Scalapino for the U.S. Asia Association in February 1989, says that China's foreign policy actually "tends toward nonalignment and toward the United States and Japan."
8. "Sino-Soviet Relations: The Improvement of Recent Relations and Its Meaning for the United States" by Robert Sutter, published by the U.S. Congressional Studies Department in September 1986.
9. Speech by Winston Lord given at the Federal Club, San Francisco, December 1988.
10. Shevardnadze's interview with IZVESTIYA, 25 November 1988.
11. "Asia Policy: The Soviet Union's New Challenge in the Pacific," by Robert Manning for the U.S. "Twentieth Century Foundation," November 1988, pp 48-51.
12. There are many similar viewpoints, such as the analysis made by Harry Harding in his speech at the Brookings Institution in 1988, which was reported by XINHUA NEWS AGENCY in a Washington dispatch on 4 November 1988.
13. FAR EAST ECONOMIC REVIEW, by an American official, 8 September 1988.
14. "Post-Reagan Economic Policy Toward China," by Nicholas Lardy, U.S. COMMERCE DAILY on 8 February 1989.
15. See Oksenberg interview with U.S. Information Agency reporters on 10 February 1989, in a USIA dispatch from Washington on the same date.
16. "Detente and Confrontation: U.S.-Soviet Relations From Nixon to Reagan," by Raymond Garthoff, Brookings Institution, 1985, p 1116.
17. "Memorandum to the Next President" by Henry Kissinger, NEWSWEEK, 19 September 1988; the author thinks that there will be two balances of power in Asia in the 1990's, with China, Japan and the Soviet Union in Northeast Asia, and Japan, India and the Soviet Union in Southeast Asia.

## NATIONAL AFFAIRS, POLICY

### Development of Contract System Urged

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[Article by He Jianzhang 0149 1696 4545 of the Sociology Research Institute under the Chinese Academy of Social Sciences: "Seriously Improve and Develop the Contract System"—written in February 1989]

[Text] The contracted operation responsibility system (below referred to as "the contract system") was pioneered by the staff and workers of our country. Its contents are that, on the basis of maintaining socialist whole-people ownership of the enterprise, in accordance with the principle of separation of ownership and operating rights, and through the form of a contracted operation contract, the responsibilities, rights and interests relationships between the state and the enterprise are set down, so that the enterprise achieves an operational management system under which it is responsible for its own operations and takes sole responsibility for its own profits and losses. The contract system was first implemented by the Shoudu Iron and Steel Corporation and a small number of other enterprises. The overall implementation of the contract system began in May 1987. By the end of 1988, 85 percent of industrial enterprises within the state budget, and 93 percent of medium-size and large enterprises within the budget, had implemented the contract system.

As the contract system stimulated the enthusiasm of the staff and workers of the enterprises, the amount of profit and taxes realized by the budgeted enterprises throughout the country in 1987 was 11.8 billion yuan up on the figure for the previous year, a growth of 9.9 percent. The increase in financial revenue due to the implementation of the contract system was over 6 billion yuan. The year 1988 should have been a year in which the enterprise contracts saw great results. However, they were strongly battered by price rises and the enterprises had to take on further burdens of approximately 9 billion yuan. Even in this situation, the enterprises did not reduce the base figures they were to hand up, and economic results still saw growth. From January to October 1988, the output value of budgeted industry grew 11.1 percent, while net profits and taxes grew 1.8 billion yuan, a growth of 16.8 percent. Of this, taxes grew 19.8 percent and profits grew 13.6 percent. From May 1987 to October 1988, the total amount of profits and taxes created by the overall implementation of the contract system was over 30 billion yuan. The above figures show that the contract system has not only effectively brought enterprises' potential into play, but also given enterprises a capacity to absorb price rises. If this had not been the case, the financial revenue situation last year would have been unbearable. Practice has proven that the contract system has a strong life force. The 3rd Plenary Session of the 13th Party Congress put forward the principles of

improving the economic environment, rectifying economic order and deepening reform in an overall way. In the area of enterprise reform, what was particularly stressed was that it is necessary to "seriously improve the contract system." This was very correct. Practice has proven that the contract system fully brings into play the enthusiasm of enterprises and their staff and workers. It is able to both increase financial revenue and increase total supply to the society. It is thus of key importance in dealing with inflation at present and for stable economic development in future.

What is worth deep thought is the fact that, at the same time as this, various views reproaching the contract system are being circulated in our newspapers and periodicals. The main basis of these views is that the contract system has the public ownership system, and predominantly whole-people ownership (state ownership) as a precondition, with the result that property rights are not clear and various problems ensue from this. They consider that the basic way out is to implement private ownership. Some other comrades propose that we replace the contract system with the shareholding system. There are also various other views. Thus, before exploring how to seriously improve and develop the contract system, we first need to clear up these problems of understanding.

### I. The Different Trains of Thought in Enterprise Reform

A. Are we to adhere to the public ownership system or to implement privatization?

As stated above, the contract system is implemented under the precondition of adhering to the socialist whole-people ownership system (state ownership system), for the purpose of having enterprises realize an operational management system whereby they make their own operational decisions and are solely responsible for their own profits and losses. Shoudu Iron and Steel was the first to implement the contract system and is also an example of the best operators of the contract system. In September 1988, the work report of an expanded meeting of the Shoudu Iron and Steel's party committee clearly pointed out: "The experiences of practice over 10 years have fully demonstrated that the contract system is a good form by which an enterprise can take its operational decisions, the staff and workers are masters and whole-people ownership can be realized. It is a basic model for forming socialist enterprise operations and should become a basic line of thought in our country's urban reform." The opposite view is that public ownership and especially whole-people ownership (state ownership) has hazy property rights, that in name everyone has a share, but that in fact there is no owner, no one is responsible and many problems arise from this. They say that whole-people ownership or state ownership has "shackled the development of modern productive forces" and that it would be better to "simply proceed along the road of privatization", to implement

"socialist private ownership" and so on. In the last 10 years, many well-known Western scholars have repeatedly stated that only by the privatization of property rights will China's economic reforms have any prospects of advance. SHIJIE JINGJI DAOBAO recently published an article by two persons from Monash University in Australia. They held that the current economic chaos in China "is created by there being no system of private enterprise based on the implementation of private property", that if the state ownership system is not discarded and a private enterprise system based on private property is not instituted, then the reforms such as price reform, handing down power and allowing retention of profits and the contract system will bring more problems than benefits", that privatizing state-run enterprises is the only avenue to ensure that the reforms achieve thorough-going success" and so on.<sup>1</sup> Actually, people who put forward ideas such as this not only do not understand the national situation in socialist China, but also ignore the history and current situation of economic development in capitalist countries. Everyone knows that, in accord with the three technological revolutions and the socialization of production, capitalist relations of production also underwent three readjustments. This formed the three stages of capitalist development—the free competition stage based on individual capital and share capital, the stage of private monopoly capitalism where capital was accumulated and centralized to a high degree, and the state monopoly stage which was characterized by state participation. In the third stage, there appeared the capitalist state-owned economy.

After World War II, the state-owned enterprises (including mixed enterprises which were jointly managed by the state and by private individuals) of the various capitalist countries saw different degrees of development. The emergence of state-owned enterprises generally was along one of two paths: The first was "nationalization", whereby the state purchased a private enterprise for a high price or for other compensation and turned it into a state-owned enterprise. The second was that the state would use a financial allocation as investment and establish a state-owned enterprise. In addition, the state could, through purchasing shares in a private enterprise, realize the combination of state ownership and private ownership. This would form half state-owned enterprises, which were in essence state monopoly capitalist enterprise. From the end of the 1960's to the beginning of the 1970's, in the major capitalist states the proportions of state-owned enterprises and state-private joint-ownership enterprises in the national economies was generally as follows: 1) state economic investment as a proportion of total investment; U.S. 18.4 percent, Japan 24.1 percent, FRG [Federal Republic of Germany], 22.7 percent, France 33.5 percent, Great Britain 30.0 percent, and Italy 28.0 percent; 2) the proportion constituted by the state in material property reproduction; U.S. 13.0 percent, Japan 22.0 percent, FRG 20.0 percent, France 42.0 percent, Great Britain 13.5 percent (as a proportion of GDP); 3) the proportion constituted by state credit in financial industry assets:

U.S. 14.7 percent, Japan 16.2 percent (calculated according to deposits and savings), FRG 54 percent, France 60 percent (calculated according to deposits and savings), Great Britain 2.0 percent, and Italy 75 percent.<sup>2</sup> Since the beginning of the 1980's many countries have seen a tide of privatization, with successive sales of shares in state-owned enterprises. Some people have even predicted that capitalist private free enterprise will sweep the whole world. Is this really the prospect for the future? This is a question which is worth serious thought.

It has already been noted above that the development of state monopoly capitalism and the establishment and development of bourgeois state-owned and semi-state-owned enterprises has been in accord with the demands of technological progress and the socialization of production. At the same time, this has not changed the nature of the capitalist mode of production, and the capitalist mode of production still has private ownership of the means of production by capitalists as its base. The state-owned and semi-state-owned enterprises do not occupy the dominant position and only serve the overall interests of the bourgeoisie. During the 1960's and 1970's, the state-owned and semi-state-owned enterprises of the various capitalist countries were mainly centralized in the following sectors: the financial sectors which provided funds for the bourgeoisie to accumulate capital; the sectors which provide basic raw materials and basic facilities for reproduction by capitalist enterprises, such as iron and steel, power, fuel, communications and transport, posts and telegraphs and so on; atomic energy, space and military industry sectors which have major military significance; sectors which require large investment, provide small profits and which involve risk but which are beneficial to safeguarding the overall interests of the bourgeoisie. In the last 10 years, the readjustment of the industrial structure promoted by technological progress has resulted in the appearance of "setting-sun enterprises" which are no longer critical to the bourgeoisie, and the appearance of new technological sectors which are of extreme importance to them. Thus, capitalist countries have carried out the necessary readjustment of the structure of state-owned and semi-state-owned enterprises, but have not gone in for complete privatization. At the beginning of 1988, a delegation from the NPC's Financial and Economic Committee took up an invitation to visit Italy and Comrade Wang Lianzhou [3769 6647 3166] wrote a report on the visit. In this he notes some very illuminating things. The report states that according to an introduction given by Genaneli [as published], the Minister of State Participation [as published], there are many companies in Italy which are state-owned or in which there are substantial government funds. Three major state enterprise groups control close to 1,000 enterprise companies, with an annual output value constituting over one-third of the total national industrial output value. Those industries with strategic significance are state monopolies, or else state-owned capital controls the majority of the shares, and the state is the major shareholder. In the early 1980's, Italy began to readjust its



state-owned enterprises, and sold off some of its enterprises. However, this change did not mean that the position and role of the state-owned economy in the overall economy was weakened. This is because the majority of the enterprises that have been sold or are being prepared for sale are of the "setting-sun industries" and serious loss-making enterprises. However, state investment in new technology sectors, basic industrial sectors and basic facility sectors, as well as in the reduction of the disparity between the North and the South of the country and in supporting the Southern economy which developed quite late, not only has not been reduced, but has actually greatly increased. On the position of the state-owned economy, people in the Italian economic circles generally feel that some industries and some production areas are better operated by private concerns than by state enterprises. These include service industries, textile industries and other processing industries. It is felt that handing some industries over to private operation will prove of benefit to their development. However, if private enterprises are to attain further development, they need the guidance of state policies and also need to rely on various basic conditions like transport and energy which the state economy creates. The chairman of ENI [as published] chairman Reviglio feels that the widely-held view at present that private enterprises are all highly efficient and that state enterprises are all of low efficiency is a biased view. He says that in the world market place, state-owned enterprises have a competitiveness which private enterprises cannot match and says that this is an example of how they can be more efficient. Genaneli, the Minister of State Participation, said that in Italy, in the readjustment of the industrial structure, some enterprises need to be state-owned and some need to be privately owned. The principle of readjustment is to look at what would be best for the long-term interests of the state and what would be best for developing the social productive forces. He said Italy's program is that the state will continue to participate in the management of enterprises which have strategic significance and will continually increase investment to guarantee the realization of the socioeconomic goals the government wants to achieve.<sup>3</sup> Everyone knows that a state-owned economy and state participation in managing the economy play an important role in alleviating the economic and social contradictions of capitalist states and in promoting the development of the social productive forces. However, it should also be soberly recognized that the capitalist system is based on private ownership of the means of production by capitalists. The nationalization of capitalism, regardless of how it is done, cannot shake the dominant position of the private economy. On the contrary, the state-owned economy and state intervention serve to create more beneficial conditions for the development of the private economy, and thus serve the overall interests of the bourgeoisie. Engels pointed out: "But the transformation, either into joint-stock companies and trusts or into state ownership, does not do away with the capitalistic nature of the productive forces ... The modern state, no matter what its form, is essentially

a capitalist machine, the state of the capitalist, the ideal personification of the total national capital. The more it proceeds to the taking over of the productive forces, the more does it actually become the national capitalist, the more citizens does it exploit. The workers remain wage workers—proletarians. The capitalist relation is not done away with. It is rather, brought to a head."<sup>4</sup> I believe that this principle is still valid today.

To sum up the above, the tide of nationalization in the various capitalist countries after the war was promoted by technological progress and the socialization of production. The present tide of privatization arises from the same causes. However, the tide of privatization is only a readjustment of the industrial structure of the state-owned economy of the capitalist countries. A readjustment of the structure and ratios of state ownership and private ownership certainly cannot abolish the existence of the state-owned economy. Complete privatization will not accord with the demands of objective economic patterns and likewise will not be in accord with the overall interests of the bourgeoisie. At the same time, the capitalist state-owned economy is only a supplement to the capitalist private economy and does not truly resolve the basic contradiction in capitalism between the socialization of production and the private ownership of the means of production. Therefore, it cannot eliminate the source of the shaking and crisis of the capitalist economy. The capitalist economy has indeed undergone some major changes since the war and the capitalist world had seen a period of relative stability. However, it cannot be considered that capitalism has entered an age of a "thousand-year empire." The "share crisis" which shook the entire capitalist world the year before last resulted in some bourgeois economists becoming laden with anxieties about future global crises. This is worthy of our deep consideration. In brief, only by going through a socialist revolution and implementing the socialization of the ownership of the means of production, will there be socialist nationalization under the leadership of the proletariat and will the basic contradictions of capitalism be properly resolved. Public ownership is the basic system of socialism. This basic principle of Marxism is not outdated.

How then are we to look at the situation in our economy at present where diverse economic components coexist? Some bourgeois economists and sociologists see the revival and development to some degree of private economy in our country as a component part of a global tide of privatization. Some other people see this phenomenon as a major sign of the abandonment of the socialist road and the implementation of capitalist liberalization. They are completely wrong.

The state-owned economy of socialist states, including our own, also emerged in response to the demands of the socialization of production. It is the material basis on which the state regulates the coordinated development of the economy and the society. This is little different from the state economy of state monopoly capitalism. The

difference lies in the fact that the socialist state ownership system is a system of ownership by the whole people, while the capitalist state ownership system has a bourgeois "common ownership system." Our mistake in the past lay in that we did not consider the multilevel nature of the development of the productive forces and we tried to do everything in one step, requiring absolute purity in ownership system relationships. In the last 10 years, we have corrected the "leftist" mistake, by which in the transformation of the private means of production, we sought collectives "large in size and collective in nature." We have appropriately revived and developed the individual economy and allowed the private-operation economy to exist and develop within a certain scope. Now, we have initially formed a situation where diverse economies coexist but where socialist public ownership forms the main component. At present, the industrial output value of the individual economy and the private-operation economy is less than 1 percent of total national industrial output value. It seems that the private economy still has quite some major scope for development. Our principle is that we will maintain state ownership of those industries and major enterprises which have a high degree of socialization and are imported to the economic life-blood of the state. In other industries, the development of the individual economy and the private economy will be encouraged. Small-scale state-owned enterprises which have a low level of socialization and which are suited to dispersed operation, will be changed into collective enterprises or leased or auctioned to private operation, so as to make up the deficiencies of the socialist publicly-owned economy. As to the degree to which it is appropriate to develop the private economy (including the individual economy and the private-operation economy) this is a question which awaits further study. However, in any case, the highest limit must be one where it does not endanger the primary position of socialist public ownership. This is just the same as nationalization in capitalist countries not being allowed to develop to a degree where it endangers the primary position of the capitalist private ownership system. If we say that capitalist nationalization is a necessary and beneficial supplement to the capitalist private ownership system, the "privatization" of the socialist states is a necessary and beneficial supplement to the socialist public-ownership economy. The distinction between the two is extremely clear. Only if a socialist state maintains the primacy of the public ownership system will it have unified social benefits, will it be able to coordinate plural requirements of different interests, guarantee long-term development goals, guarantee the coordinated development of the economy and the society and finally achieve the goal of common prosperity.

Second, does the mention of whole-people ownership (state ownership) determine that we are talking about no-one taking responsibility and low efficiency? On this question, Comrade Zhou Guanwu [0719 0385 0063], the chairman of the board and party committee secretary of

Shoudu Iron and Steel Corporation, has made a pertinent comment: "Many people often relate whole-people ownership with no one taking responsibility and low efficiency, and think that without changing the ownership system there will be no escape from this situation. However, the experiences of Shoudu Iron and Steel Corporation have proven that through the contract of the enterprise to the people and individual contracts at each level within the enterprises, it is possible to achieve a situation where there is still whole-people ownership, but where everyone takes responsibility. This has allowed sustained major growth in economic results, and given full play to the superiorities of the socialist public ownership system." Through 10 years of reform, Shoudu Iron and Steel Corporation has realized outstanding achievements: net profit has risen annually by 20 percent for 10 years; the increased output of iron and steel products is equivalent to that produced by an additional large iron and steel plant; the financial income which the state draws from Shoudu has grown enormously; through transformation, major equipment has been modernized; cross-regional and cross-industry operational expansion has seen outstanding development; and the improvements in the lives of the staff and workers have exceeded those in the 30 years prior to the reforms. The technological progress achieved by Shoudu has also been outstanding. Of 55 major technological and economic indicators set for key iron and steel enterprises throughout the country, Shoudu scored first in 33 of the targets. Its standards for concentrate grade, blast furnace capacity factor, percentage of furnace input burnt, converter capacity factor, comparable energy consumption per ton of steel and other indicators have all along been at advanced world standards. Shoudu Iron and Steel already has 25 state patents, which is the greatest number of any enterprises in the country. The secrets of two technologies developed by Shoudu Iron and Steel—a furnace coal blower [GAO LU PEN MEI 7559 3619 0899 3561] and the top-blown combustion hot-blast stove—have already been transferred to Europe and the United States. We can also compare it with developed countries' large-scale iron and steel enterprises of similar scale. In the 10 years of reform, Shoudu Iron and Steel Corporation's labor productivity calculated on the basis of net output value (including depreciation), grew 2.6 times, an average annual growth of 13.66 percent. This reached the two-times growth level achieved by the iron and steel enterprises of all developed countries. The profits and taxes created per worker grew 3.7 times over these 10 years at Shoudu Iron and Steel Works, an average annual growth of 16.85 percent. Compared with iron and steel enterprises of a similar scale, this was the highest growth in the world. The experiences of Shoudu Iron and Steel forcefully prove that the continual improvement and promotion of the contract system will definitely more fully bring into play the superiorities of socialist public ownership and also show that the creation of productivity which is higher than that under capitalism is also possible.

Finally, it should be pointed out that we cannot limit the encouragement mechanism by which the enthusiasm of the enterprise operators and staff and workers is motivated simply to the ownership system. As far as modern large and medium-scale enterprises are concerned, a more important factor is the interests mechanism, a mechanism by which rewards are linked with contributions. For example, people today often praise the decisive role of the management level or the management elite large capitalist enterprises and especially in share enterprises, but these people are not the owners of the enterprise or company. In our whole-people ownership state enterprises, not only are the staff and workers owners in name but, through the mechanism by which the contract system combines responsibilities, rights and interests, they directly participate in the management and distribution of the enterprise. This closely combines the ownership factor from the encouragement mechanism and the interests mechanism, and is certainly able to fully motivate the enthusiasm of the whole body of staff and workers. This has also been proven by the experiences of Shoudu Iron and Steel Corporation and other contract-system enterprises.

#### B. Some Knotty Problems in Widely Implementing the Shareholding System

According to some recent newspaper reports, the theoretical circles widely believe that the basic avenue out of the difficulties which have beset the contract system is the implementation of a shareholding system in state enterprises. As far as I know, the first to put forward the shareholding plan was the World Bank. It proposed that state organs take mutual shareholdings in each other, so that the ownership of enterprises would be made more plural, and that then gradually the purchase and sale of shareholding rights could be allowed. Later, some scholars in our country further proposed implementing mixed ownership systems, that is whereby enterprise assets are changed into state shares, enterprise shares and individual shares. More recently, more scholars have proposed the widespread implementation of a shareholding economy based on shareholdings by individuals.

The main reason given for advocating the shareholding system is "the clarifying of property rights." According to the experimental experiences of some localities, there are very great difficulties involved in clarifying the property rights of state enterprises: 1) Whether the state shares go to the central authorities or to the province or city is a question which has elicited endless debate. 2) Whether enterprise shares are really tenable is another point of contention. Some people say that they involve the growth of state-owned assets, and that assets which are widely publicly owned cannot be changed into assets which are only publicly owned in a limited way. The problem arises further of whom is to represent the enterprise property rights. 3) The staff and workers have no money to purchase staff and worker shares, and it is not appropriate to issue them with no compensation. If these are given to workers, should some be given to

peasants? As, in the past, agricultural product prices were low, the peasants have also contributed to accumulation. Thus, there needs to be some correction through property. There are also other such problems.

Another reason for advocating the shareholding system is that it will be beneficial to achieving the separation of ownership and operating rights and the separation of government and enterprise functions. However, a requirement of the shareholding system is that the shareholders have the power to take decisions, and that decisions are taken in accordance with the number of shareholders who support the decision. In this way, with the state as the major shareholder, it will have to be better than in the past when the state directly managed enterprises. If enterprises have their own shareholding rights, and they manage themselves, how can this manifest the separation of ownership and operating rights? The staff and workers' shares will only constitute a small proportion of the total. How will this be able to manifest their "position as masters"? If the private shareholding system is widely implemented, the private individuals will participate in the decisionmaking of enterprises in accordance with the number of shares held. What difference will there then be between our enterprises and capitalist share companies?

Some people say that instituting the shareholding system will mean that all people become shareholders, that "being tied by a shareholding is like being tied by the heart and that whoever is tied will be concerned" and that this will encourage staff and workers to concern themselves with enterprise operation and management, increase enthusiasm for labor and strengthen enterprises' self-restraint capacity. First, it is necessary to differentiate between collective funds, pooled capital and shareholding systems. For example, our country has some cooperative economy units which are run through the collected funds of their staff and workers. Chinese-foreign joint-fund enterprises are also run by pooled capital. Their common characteristic is that the operators are, at the same time, the owners. Although the funds of these units are also called shares, these systems come under the cooperative economy or joint-fund operation economy, not the shareholding economy. The characteristic of the shareholding system is that shares are issued to the society and the owners (shareholders) and operators are separated. Second, under shareholding system conditions, when people purchase shares they hope that the share price will rise and that they will obtain extra income. However, the rise in the price of shares is not entirely determined by whether an enterprise's operations are good or not. This is also influenced by many other factors such as interest rates, economic cycles and even the political situation. In such a situation, even if staff and workers concern themselves with the operational management of the enterprise, they will have no power over the above variables. Further, shares can be transferred at any time. When shareholders see that an enterprise's operational management is not good, or share prices fall due to changes in the external

environment, they can sell off their shares, and do not need to unbendingly share a "common fate" with the enterprise. The many occasions of intense unrest in the share-markets of capitalist countries repeatedly verify this point.

Some people say that the implementation of the shareholding system allows the raising of funds, changes consumption funds into production funds and accelerates the speed of economic development. I believe that, apart from the issue of shares there are many forms by which funds can be raised. There are government bonds, company debentures, financial debentures and international bonds. The fund sources of state enterprises are also diverse. If, in accordance with state industrial policies, some state enterprises have a need to increase their funds to expand reproduction: 1) The state should give credit support. 2) After obtaining approval from relevant state management departments, they should be allowed to issue company debentures. 3) The state should allow these enterprises to retain sufficient profits or should levy a reduced taxation on them or exempt them from taxation. In this way the enterprises will have their own accumulation and they will have a capacity for self-development. It should be clear that our state has a planned economy, there is a certain ratio between accumulation funds and consumption funds, there is definite control over the scale of investment, and the development of the various industries is subject to macroeconomic regulation. In the last few years, some regions and enterprises have not concerned themselves with state macroeconomic control and have indiscriminately used the form of "shares" to raise funds by offering high dividends. This is one of the reasons for the occurrence of inflation in the scale of investment and in consumption.

Can socialist states also adopt the shareholding company form? I believe that, as a way of collecting funds, in various newly started enterprises, in collective enterprises and in Chinese-foreign joint-fund enterprises, this could be trial-implemented. For individual large-scale privately-run enterprises, the state could take a participatory share, as a way to control and supervise their economic activities. However, we must be extremely prudent in respect to large and medium-size state-owned enterprises. It should be understood that these enterprises play an extremely important role in the national economy, are an important source of state revenue, are the material force by which the state controls the market and in general are directly controlled by the state. At present, even though the capitalist states are engaged in privatization and are selling shares in state-owned enterprises, this is mainly restricted to loss-making of non-strategic sectors. Enterprises which are making stable profits or are of strategic importance are not privatized and shares are not sold in them. For example, it is understood that while Singapore International Airlines has been privatized, the airport will remain state operated. This is because the airport receives stable income from fees and there are no risks. It is an important source

of finances for the state and "fertilizer should not be allowed to flow to others' fields." Just imagine, if Shoudu Iron and Steel, Panzhihua Iron and Steel, the No 2 Vehicle Works, the Beijing No 1 Machine-Tool Factory and other major state-owned enterprises, which see annual profits increases of over 20 percent, widely implemented the shareholding system, how much "fertilizer" would flow into private hands each year?

In brief, I believe that the orientation of the reform of our country's large and medium-size state enterprises is not privatization and at present, the shareholding system should only be instituted in experimental points. For quite a long time to come, a quite feasible option is that, under the precondition of maintaining the whole-people ownership system, we should implement the principle of separation of ownership and operating rights, and the specific form of this separation is the contract system.

## II. Seriously Improve and Develop the Contract System

How should enterprises under whole people ownership, or state-owned enterprises, be managed under socialist conditions is an important issue which all socialist countries have been trying hard to tackle but have as yet been unable to find a satisfactory solution. In the past, enterprises were directly managed by the state in all socialist countries. The entire society was treated as a large factory, with enterprises functioning as its workshops. Production, supply, marketing, manpower, and financial and material resources were placed under the centralized management of the state. Enterprises had to act in accordance with instructions issued by the state and did not have the power to make their own decisions. In step with economic and technological progress, the relations of cooperation between enterprises and between different departments of an enterprise also changed. There was a huge number of enterprises, each with their own complicated sets of targets and data, but no power to make management decisions and had to seek instruction on all matters. Under such a system, it was simply impossible for the state to deal with everything promptly and appropriately no matter how big the administrative structure was. Thus, sluggishness, mismanagement and other bureaucratic maladies were inevitable. Since enterprises did not have any decisionmaking power in operation and management and could not be held responsible for their operation and management, it was naturally impossible to link remuneration for the staff and workers with the economic performance of the enterprises. The practice of "eating from the same big pot" prevailed in the relations of the enterprises to the state and in those of the workers and staff members to their enterprises, and became a common drawback of this system of management. This practice seriously dampened the enthusiasm of the enterprises and their staff and workers for operation, management and labor. As their economic performance declined, it is understandable why state-owned enterprises came under all kinds of criticism. The time has come when reform must be carried out. How should we go about reforming the



existing system? As noted above, the road of private ownership is not feasible and the joint-stock system entails too many problems. Thus, the basic approach should be to fundamentally reform the managerial structure of enterprises by duly separating ownership from the power of operation while upholding whole people ownership.

Here, we must first clarify the theoretical question of whether or not it was the original intention of Marx and Engels that enterprises under whole people ownership must be managed by the state or the society. Some comrades believed the answer to this was yes. The reason they gave was that after the proletariat has seized political power and taken possession of the means of production in the name of socialism, "all production departments will be managed by the society as a whole; in other words, they will be managed in accordance with a common plan and by all members of society in the interests of the public."<sup>5</sup> However, based on this we cannot draw the conclusion that enterprises under whole people ownership must be directly managed by the state. Besides, none of the socialist countries can claim that it has complete possession of all the means of production. Moreover, the direct management of enterprises by the state is a direct violation of the principle of "management by all members of society". Public ownership of the means of production also means that "every member of society will be enabled to participate not only in production but also in the distribution and administration of social wealth."<sup>6</sup> How can this goal be attained? Did Marx and Engels have any specific plan for this? To the best of my knowledge, they had briefly touched upon this question. In a letter to Babel in 1886, Engels said: "My suggestion is that the system of cooperatives be practiced in production, just as the Paris Commune called upon the workers to run by means of cooperative management those factories which had been closed by the factory owners .... In the transition to a complete communist economy, cooperative production must be adopted as the intermediate link on a large scale. Although Marx and I never have any doubts about this, we think that the society (that is, primarily the state) must have ownership of the means of production. In this way, the special interests of the cooperatives will not prevail over the general interests of the whole society."<sup>7</sup> In his refutation of the attack hurled by the bourgeoisie that "the Commune intends to abolish property, the basis of all civilization" Marx said: "If united cooperative societies are to regulate national production upon a common plan, thus taking it under their own control, and putting an end to the constant anarchy and periodical convulsions which are the fatality of capitalist production—what else, gentlemen, would it be but Communism, 'possible' Communism?"<sup>8</sup> The meaning of Marx and Engels was quite clear. First, a socialist society must have ownership of the means of production, and in the case of a state, it will be ownership by the state. Second, state-owned enterprises may adopt the cooperative mode of management, that is, ownership by the state and management by the cooperatives (or collectives). Third,

this is not a stop-gap measure but a basic mode of operation for the entire socialist period. It is thus groundless to assert that it was the original intention of the founders of Marxism that enterprises should be directly managed by the state.

The system of contracted responsibility for operation and management by the entire staff as practised in the Capital Iron and Steel Company is basically in conformity with and has enriched and developed the original intention of Marx and Engels. As we all know, the distinguishing features of management by cooperatives or management by means of cooperation are independent operation, sole responsibility for profits and losses, democratic management, and payment according to labor contribution (or shares). Although the Capital Iron and Steel Company is an enterprise under whole-people ownership, not a cooperative, it has secured management autonomy after contracting specified obligations from the state. Within the company, operation and management are carried out by means of cooperation. For instance, the Capital Iron and Steel Company clearly stipulates that the Workers' Congress is the company's highest organ of power and that the principal leaders of the company are to be directly elected by the staff and workers. The Workers' Congress will also elect a supervisory committee, which will be responsible for exercising democratic supervision over administrative cadres at various levels and dismiss the incompetent. All long-term and annual plans, internal contracts and major measures are to be decided by the Workers' Congress after full deliberation by all staff and workers. The livelihood committee elected by the Workers' Congress is solely responsible for the collective welfare of the staff and workers. All these measures have enriched and developed the principle of cooperative management.

It is said that the contract system is not completely free from administrative intervention by the state, and that administrative intervention is the product of the natural economy and the product economy. It is true that management contracts not only set down the profits to be handed over to the state and the tasks of technological transformation but also management policies. Some contracts even include clauses regarding the fulfillment of mandatory targets for certain important products. This shows that our enterprises have not yet become "free enterprises" in the true sense of the word. However, this is also where the difference between enterprises owned by the whole people and private enterprises, or enterprises under "ownership by enterprises," lies, and this difference is necessary to ensure that state-owned enterprises will be managed in accordance with the state's macroeconomic management plans and will fulfill the state's economic and social plans. If state-owned enterprises are completely separated from the state's macroeconomic management and are regulated by market forces in total disregard of the needs of the state plan, production will surely plunge into a state of anarchy once again. The fact is, state-owned enterprises are subject to varying degrees of intervention not only in socialist

societies where the commodity economy is not well developed but also in capitalist societies where the commodity economy is highly developed. According to the article cited by Comrade Wang Lianzhou, the directors and deputy directors of the head office of the state enterprises group in Italy are nominated by the Premier and appointed by the President for a term of 3 years. The government has also set up the Ministry of State Participation to be responsible for deciding the basic policies and directing the operation of the enterprise group. Some of the major policy issues of the enterprise group and its holding companies have to be discussed by the Ministry of Public Participations and ad hoc committees of the Parliament. It can thus be seen that state intervention in enterprises is decided by the nature of the state-owned economy and has nothing to do with the natural or product economy.

The allegation that "the contract system encourages short-term behaviors on the part of enterprises" shows misunderstanding of the internal mechanism of the contract system. In most contract systems, profits above fixed quotas are retained by the contracting unit and specific proportions of the retained profits will go to the production development fund, collective welfare fund and wage and bonus fund. The bonus fund usually floats according to a given percentage of the total wage bill and profits realized. Thus, if an enterprise wishes to increase revenue it must constantly strive for development, increase its economic returns and spend a major portion of its retained earnings on technological transformation and expanding reproduction. At the same time, because the material gains of individual members of staff and workers are linked to the economic performance and long-term development of their enterprise, all staff and workers will strive to contribute their share toward developing the enterprise and increasing its economic returns. They will be able to combine the long-term and short-term interests of the enterprise and correctly handle the relations between accumulation and consumption and between livelihood needs and production. A self-stimulating, self-regulating and self-controlled mechanism will develop, producing a benign cycle in the operation of the enterprise. The Capital Iron and Steel Company envisages a 20 percent annual increase in its net profits up to the year 1995, by which time its profits will reach 10 billion yuan (the profits realized in 1988 is estimated at 1.614 billion yuan). The No 2 Automobile Company has plans to build a new plant with an annual capacity of 300,000 vehicles with its own capital in the year 2000. None of these can rightly be called "short-term behaviors."

Another common view is that "the contract system gives guarantee for profits but not for losses." The fact is, the contract system not only specifies that all or portions of above-quota profits will be retained by the contracting unit, but also specifies that all shortfalls must be paid by the contracting unit with its own capital. Moreover, even if a contracting enterprise has made profits, if the profit margin is below the profit quota or quota for progressive

profit increase, it will still have to pay for the difference out of its own funds. This means more than assuming sole responsibility for one's own profit and loss in the general sense. Some comrades may ask: What if an enterprise goes bankrupt? If the managers and workers cannot pay for the losses, the state will end up paying in the end. I think that it all depends on how we interpret liabilities for losses. In a capitalist society, except for sole proprietors, who might end up taking their own life, the worst that can happen to an employed manager is to be called to account or given the sack. He will not be asked to pay for all the losses. In China, under similar circumstances, we can only lower the wages of the managers and senior management staff. Other staff and workers will be only be issued subsidies for living expenses and will have to seek new employment, which is already quite a harsh punishment. It will be not only unreasonable, but also impractical, to expect more.

Of course, this does not mean that the present contract system is already quite perfect and does not have any drawbacks. Just like any other new things, the contract systems has to go through a process of improvement and development. As it has only been just over a year since the contract system was first popularized on a full scale, it is not surprising that problems will emerge. We should not demand perfection. The correct attitude should be to sum up experience and seriously improve and develop the system. Views expressed in previous discussions on the contract system may roughly be summed up as follows:

A. The contract system should gradually be standardized.

First, the form of contracting should be standardized. At present, different forms of contracting are practiced in various places. Some of these are not contracting in the true sense of the word. Rather, they are variations of the replacement of profits by taxes or the separation of profits to be handed over from tax payments. The so-called aftertax contracting is a case in point. On the whole, a contracting enterprise should be exempted from income tax and regulatory tax and should only be required to hand over a fixed quota of profits. It should be able to retain all above-quota profits but should be made to make good all losses. This is the only way to fully arouse the enthusiasm of enterprises. With aftertax contracting, an enterprise not only has to pay income tax on additional profits but has to hand over profits to the state as well. After tax payment, it still has to repay its loans, pay energy and transportation construction fees, subscribe treasure bonds, and so on. Thus 90 percent of the profits realized are taken away. Under such circumstances, the significance of contracting, that is, giving an enterprise initiative and the ability to expand reproduction, is lost. It should thus be stipulated that the form of contracting be confined to contracting with fixed profit quotas, contracting with progressively increasing quotas, contracting for reducing losses, and so on. The practice of retaining all above-quota profits should be strictly enforced.

Second, the total wage bill should be linked with profits realized. At present, some enterprises have their total wages pegged with the amount of profits to be handed to the state. This practice stimulates the enthusiasm of the staff and workers, as handing over more means being paid more, but it also cuts down expansion funds. What we should do is to link total wages with the profits realized. In the Capital Iron and Steel Company this ratio is fixed at 0.8 to 1. Only in this way can the interests of the state, the enterprises and the staff and workers be combined.

Third, all-personnel contracting should be developed. Different types of contracting are now practiced, such as individual contracting, partnership contracting and all-personnel contracting. We should not arbitrarily demand uniformity, since conditions vary from enterprise to enterprise. However, individual contracting and partnership contracting will bring about contradictions between the managers and the staff and workers, and all-personnel contracting alone will be able to fully give expression to the spirit of the staff and workers as masters of the country and will arouse their enthusiasm. Thus, we should take the development of all-personnel contracting as our goal.

Fourth, the term of contracting should be extended. At present, most contracts have a 3- to 5-year term while some only last 1 year. Such short terms are inevitable at the initial stage when we lack experience. However, short terms of contracting make it difficult for enterprise to plan far ahead and make short-sighted behaviors avoidable. Many comrades have suggested that the term of contracting be extended. After their current contracts have expired, large enterprises should extend the term to the year 2000 when negotiating new contracts.

B. Departments involved in contracting by trades should further implement the system of contracting by enterprises. At present, the system of input-output contracting is practiced in the departments petroleum, petrochemical and nonferrous metal industries, coal-mining, ship-building and railways. Except in the department of railways, contracting by enterprises is not practiced and the practice of "eating from the big pot" still prevails. Manpower, financial and material resources, production, supply, marketing, and the power to conduct domestic and foreign trade are centralized in the hands of the corporations, and enterprises do not have any power to make their own decisions in management. This greatly dampens the enthusiasm of the enterprises and the staff and workers. Enterprises involved in contracting by trades are key enterprises directly under the central management. Since they do not have any management autonomy, they are faced with the greatest difficulties and have as yet been unable to reverse the trend of the downward spiraling of profits. The staff and workers of these enterprises have a strong desire to practice the contracting system.

After implementing the contracting system in 1986, the railways system adopted a positive attitude toward contracting by enterprises. In 1988, all-round contracting covering not only production and management but also capital construction was practiced in various the railroad bureaus and factories. Railroad enterprises became relatively independent entities and a new outlook soon emerged in railroad production and operation. Thus, we should make it very clear that all departments involved in contracting by trades should, without exception, implement the policy of the Central Committee and State Council regarding the implementation, improvement and development of contracting by enterprises.

C. Reform of the macroeconomic management structure should be carried out as a supplementary measure.

The key to the improvement of the contracting system lies in supplementary reforms on the macroeconomic level. These refer to a range of reforms including planning, investment, pricing, and the financial and foreign trade systems. At present, there are still far too many mandatory targets; enterprises have very little autonomy in investment; too many goods are still under unified control; enterprises are only allowed to retain a small proportion of their profits and do not have autonomy in foreign trade matters. In these respects, the individual undertakings, private enterprises and town and township enterprises enjoy much greater flexibility than the large and medium-sized enterprises owned by the whole people. This results in the non-standard practice of individual, private and collective undertakings squeezing the economic sector under whole people ownership. These problems cannot be solved simply through the efforts of the large and medium-sized enterprises themselves. The key lies in the further delegation of power by state organs. Many comrades have suggested that enterprises which have performed well since adopting the contract system and whose products meet the needs of society be given autonomy in investment and foreign trade matters so that they will have the power to invest in new and renovation projects and to directly negotiate with foreign enterprises. Planning departments may give advice and suggestions, but should respect the above-mentioned autonomy of the enterprises.

At present, we are trying to improve the economic environment and rectify the economic order. In the course of this, we must, on the one hand, try not to be pessimistic and disappointed, lose heart in the socialist public ownership system and take the wrong path of private ownership. On the other hand, we must refrain from taking back the limited autonomy now enjoyed by the enterprises and returning to the old road of highly centralized management. We must deepen reform. In particular, we must seriously improve and develop the contract system and truly invigorate the large and medium-sized enterprises under whole people ownership. When we have done this, we will be able to check

inflation in no time, and an excellent situation with a reasonable industrial structure, abundant market supplies and growing economic prosperity will emerge.

#### Footnotes.

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2. "The World Economy," *PEOPLE'S PUBLISHING HOUSE*, vol. 2, p 56.

3. "The State Continues To Participate in Economic Management—An Investigation of the Italian Economy," Wang Lian-zhou [3769 6647 3166] *JINGJI RIBAO*, 1 Apr 1988

4. "Socialism: Utopian and Scientific," *SELECTED WORKS OF MARX AND ENGELS*, Engels, Vol 3 p 436.

5. "Principles of Communism," *SELECTED WORKS OF MARX AND ENGELS*, Engels, Vol 1, p 217.

6. "SELECTED WORKS OF MARX AND ENGELS", Karl Marx, Vol 3, p 42

7. "Letter to A. Babel, 20-23 January 1886," *COLLECTED WORKS OF MARX AND ENGELS*, Engels, Vol 36, pp 416-417)

8. "The Civil War in France," *SELECTED WORKS OF MARX AND ENGELS*, Vol 3, pp 378, 379.

**'Causes, Remedies' in Dealing With Corruption**  
40060629 *JINGJI RIBAO* in Chinese 26 May 89 p 3

[Article by Gao Shangang 7559 0810 4993: "Corruption: Causes and Remedies"]

[Text] At the outset of this year, when the Secretariat of the CPC was discussing the topic of maintaining honesty in Party and state organs, it was explicitly noted that we are a socialist nation under the leadership of the communist party, and absolutely cannot permit the existence and spread of corruption. The patriotic students who very recently were raising their conspicuous slogans were also opposing corruption. These cries from people at all levels demonstrate that a remedy for corruption has become a matter of extreme urgency for China.

**I. The phenomenon of corruption can take many forms, but essentially it is the trading of power for money. Objectively, corruption among party and governmental cadres has become serious in recent years. The appearance of this sort of situation has deep-seated economic roots and social reasons.**

First of all, in the period of change from an old to a new system, a great many aspects of policy, laws and regulations are as yet unperfected, giving corrupt elements the opportunity to exploit the situation. Along with the deepening of reform, we are in the process of switching from the traditional- product economy to a commodity economy. This changeover from an old to a new system is being carried out under the specific circumstances of a serious shortage of resources. In order to ensure normal development of the economy, at the outset of reform, as well as for sometime afterwards, the only way the nation could further reforms was by steadily opening up, putting part of our goods and materials into the market, while at the same time continuing to carry out planned controls on another part. In this way, it was hard to avoid the phenomenon of having two prices for the same item, or even several prices for the same item. When double-track pricing first appeared it was of major import for economic development. However, because corresponding market management and market control did not keep pace, a small number of powerful, corrupt officials were able to directly or indirectly embezzle the differential between the plan price and the market price. In addition, in the past several years there have been great changes in the Chinese economic system as compared to the prereform era, and excessively concentrated economic management is gradually being replaced by a more democratic style of economic management. However, along with the relaxation of management powers, a matching system of restraints was not promptly established and still has not been perfected. This also provided an opportunity for a small number of people to misuse their authority in seeking personal gain.

Secondly, in the course of opening to the outside, a small number of leading cadres in the party and the government blindly pursued a luxurious and extravagant style of living, another important reason for the occurrence and spread of corruption. As soon as some of the Party's leading cadres went into the cities, they felt heartsick at walking on carpets, regarding this as extravagant. With the passage of time, they grew increasingly dissatisfied with this. After opening wide the door to the outside, China daily increased its international contacts in such fields as economics, technology, culture, physical education, etc. In this contact activity, some Party leaders were deeply pained by the backwardness and shortcomings of our people, and had feelings of inferiority concerning their own consumption. Seeking an excessive level of enjoyment, without any regrets, they spent large amounts of the nation's foreign exchange in their efforts to afford luxury automobiles and construct large buildings and high-rise hotels. Under the impetus of this spoiled atmosphere, some local cadres even went so far



as to remorselessly misappropriate funds intended to help the poor and very scarce educational funds, in order to satisfy their own selfish desires. When they were addicted to these pleasures, they had already forgotten that the national condition is such that the average per capita spending in China is only \$300 per year.

Furthermore, both within and outside of the Party, there is a lack of strict supervision and punishment. In the course of its struggle for political power, the Party has gone from being weak and small to being strong and large; a major reason for this was its reliance on the style and discipline of "not taking the mass one line, one thread" to enjoy the support and respect of the masses. After they had seized political power, this party tradition was obviously weakened. The "ten years of upheaval" drove the party nearly to the point of laxity. When the "ten years of upheaval" were concluded, we began moving immediately towards reform. Along with the development of a commodity economy, such decadent things as "putting profit first" doubtlessly added to the difficulty of party personnel resisting the phenomenon of corruption. This demanded a higher level of discipline and style from the party. The unfortunate thing is, that in the tide of striving to develop a commodity economy, insufficient attention was given to the signals of clean government demanded from leading party and government cadres. In starting to get serious about the problem of cadre resistance to corruption, even though the news media exposed some of it, the masses within and outside of the party made some attacks, and party and government adopted such good government measures as rectification, still in general the result is that the idea has not fully penetrated to the people. This has undoubtedly covered up the breeding and spread of this hidden danger of corruption.

**II. On the topic of controlling corruption, whether we can be deeply resolute, whether we can make a genuine, down-to-earth effort, hinges upon whether there is a profound understanding of it.**

One argument holds that power is eroded by money and "power can control everything," perhaps is a kind of societal progress. The writer cannot agree with this. In socialist countries, power represents the common interests of the masses. In making these powers public, there are only a small number of people who can enjoy these powers independently. Scholars who study the things of political development theory (such as Huntington) view this as an indicator of decline; why, then do we regard it as societal progress? Moreover, there is a lack of an objective reference system for comparing the two. Power can be exercised for the good, or for the bad. We should exert ourselves to advance the processes of democracy and legalization, restricting these via the scientific method, enabling these to supplement even more the benefits of the majority of the people. This kind of societal progress perhaps will be of more substantive significance.

There is another view which holds that corruption is the necessary price of developing reform, and that in bringing corruption under control there is the possibility of weakening the market function, then proceeding to turn things back to what they were before. Actually, it is not the corruption of authority that is the price which must be paid for the smooth implementation of reform; rather, it is whether the masses wholeheartedly support reform. If the spirit is willing but the flesh is weak, due to various misapprehensions about corruption, then it will certainly have a negative affect on the masses' enthusiasms. If things turn out this way, it not only will weaken the masses' hope for reform, it could also lead to their suspecting and vacillating about the communist party. There is no question that this will weaken the strongest motivating force for reform; it will cause us to lose the prerequisites and conditions for the reform for which we have worked so hard. In a very short time this condition will become a reality. Not only could this turn the system back to what it was, it could make the situation even worse.

The phenomenon of corruption is by no means totally an economic matter; manifestations of corruption of power is far from being something that can be calculated in monetary terms. Therefore, eliminating corruption is of vital significance. It not only can stop or decrease the erosion of the masses' benefits by a few corrupt officials, it can eliminate the use of power to seriously interfere with the market system. More importantly, it can be depended upon to raise the masses' confidence in the party leadership and trust in the future of socialist nations, and it will increase the masses' coming together over this great undertaking of reform.

**III. As related above, corruption began intensifying and spreading against the larger background of opening to reform and developing a commodity economy. However, this by no means implies that corruption can be eliminated only through a return to the old system, by closing the gate we have opened wide. We should adopt positive methods, eradicating corruption through a comprehensive attack.**

First of all, market regulations should be perfected as soon as possible, to establish an ordered commodity economy. Basically, completing the changeover from the old to the new system will fundamentally weaken the economic foundations of corruption, because a high level market economy system's transparency is stronger, and very difficult for government officials to take advantage of for their personal gain. However, accomplishing this kind of changeover must in the end require a longer process. Therefore, in the changeover process, we must set up a market order and market regulations which are more standard, as far as possible eliminating those plan and market conditions that could lead to leaks. For example, some scholars propose that certain critically scarce natural resources be offered for sale at public auction, changing from the original possibility that the benefits could all end up in the hands of one individual to collective or state ownership; to control the circulation

cycle, implement a longer period of monopoly ownership of certain materials; and consolidate by increasing the sale and resale price as the chief concern of companies engaged in trade. These suggestions are all worthy of serious consideration.

Secondly, leading cadres at all levels should conscientiously narrow the gap in living standards between them and the masses. As Comrade Liu Shaoqi said back in 1956, "The standard of living for our nation's leaders should approximate that of the people, with no great disparities." In situations where the nation encounters temporary hardships, he knew that even in such small matters as buying oil and peanuts, one should even take special care to guard against seeking special privileges. With earnest words and sincere advice he warned some Party and government leaders, "You have made contributions, and when there were none of these you suffered; what does it matter if you eat some peanut shells? As soon as some trouble occurs, you take to the streets. This is a great problem." If our leading cadres at all levels of party and government can keep these words of Comrade Shaoqi constantly in mind, crossing the river in the same boat as the people, sharing in their comforts and hardships, then corruption will be greatly diminished naturally.

Further, strengthen and perfect a system of socialist democracy and law, to supervise and restrict the breeding and spread of corruption. Some nations which have more advanced commodity economies, in order to decrease corruption among government officials, one after another have established reporting systems for government officials' income and property. Officials who are overdue in reporting are subject to judicial action. As soon as it is discovered that someone in a reporting unit has violated the law, then judicial mechanisms are notified. This method is of significance for us to copy and draw inspiration from. At present, we should encourage the masses to expose and report instances of graft among leading cadres in Party and government, and if these are based on irrefutable fact, then they should be handled in accordance with Party discipline and the nation's laws. Some major cases of corruption should be made public through the news media. At the same time, attention should be given to making the fullest use of the democratic parties and public opinion in the superintending function.

"Trampling on Mount Qi can be deadly to the people." Our present reform and development are confronted with new problems. We need only have a courageous frame of mind concerning corruption, and arouse the enthusiasm of the people, and then we can make it through the difficulties.

### PROVINCIAL

#### Jilin Governor Announces 2nd Quarter Economic Tasks

40060597a Changchun JILIN RIBAO in Chinese  
21 Apr 89 p 1

[Article: "The Government of Jilin Province Holds Its 2d Plenary Session To Plan its Economic Tasks for the Second Quarter of 1989"]

[Text] The government of Jilin Province held its 2d

plenary session on 20 April to plan its economic tasks for the second quarter of 1989. Wang Zhongyu [3769 1813 4416], Jilin's new governor, gave a report at the plenary session on Jilin's economic situation in the first quarter and specific plans for its economic tasks in the second quarter of 1989.

When analyzing the condition of Jilin's first quarter industrial and agricultural production, Comrade Wang Zhongyu spoke as follows: Jilin's GVIO for the first quarter of 1989 increased 4.4 percent over the first quarter of 1988. As to our growth rates, light industry and collective and local enterprises grew faster than heavy industry and state-owned and national enterprises. The condition of agricultural production was better than expected and spring planting is now in full swing. Compared to previous years, certain new characteristics have appeared in our spring planting. That is, the general climate of agricultural production is improved, the acreage planted to grain has been basically stabilized, the agricultural structure is improved, and more money and materials are being put into production.

Jilin's markets and prices became more stable and market supplies of pork and vegetables in particular were better in the first quarter of 1989. The sharp increases in market prices that had occurred since the last half of 1988 began to slow and the increase in Jilin's retail price index ranked about 20th in China.

When discussing plans for Jilin's economic tasks in the second quarter of 1989, Comrade Wang Zhongyu pointed out the following areas that will be given priority:

1. Firm emphasis will be given to carrying out all steps to restore order. Particular emphasis will now be given to controlling price increases, keeping consumer funds from increasing too fast, controlling wholesale outlets, and reducing the investment in capital construction.
2. All efforts will be directed toward achieving good agricultural harvests in 1989. Priority will now be given to doing a good job of spring planting, fighting natural disasters, planting as early as possible, relying on science and technology, increasing input, making certain that all seedlings grow, speeding up early maturing, and striving for high yields. Along with emphasizing spring planting, diversified operations and township enterprises will be emphasized in line with each area's actual conditions, livestock industry production will be especially emphasized, and a good foundation will be laid for achieving 1989's livestock goals.
3. Difficulties will be surmounted and second quarter industrial production will be well organized. Jilin will strive to achieve the general goal of a 6-8 percent growth rate for industrial production in the second quarter. Although the second quarter has always been our best

season for organizing industrial production, since external production conditions are continuing to worsen for enterprises, morale will be raised and all possible steps will be taken to improve second-quarter production. Positive restructuring will be carried out, favorable policies will be put into effect, and priority will be given to ensuring the production of 36 products and the 52 enterprises that earn the most profits and pay the most taxes. The dual increase and dual economy movement will be thoroughly launched, increased output will be sought through economizing, and development will be striven for through tapping latent potentials.

4. Efforts will be made to stabilize market supplies. Supplies of food, such as grain, oil, pork, vegetables, eggs, and poultry, the production and supply of daily necessities, such as matches, soap, sugar, laundry detergent, textbooks, the production and supply of manufactured goods for daily use, and high-grade durable consumer goods will all be emphasized.

5. Conditions will be actively created to speed up our pace of development and opening up to the outside world. The development climate that is created by restoring order will be fully utilized to actively speed up the building of Jilin's EDZs, open zones, and trade zones. Decisive steps must be taken to better organize and coordinate the production of products for export, and close attention must be paid to emphasizing the achievement of practical results through domestic economic and technical alliance and cooperation.

6. Steps will be taken to increase revenue and raise funds in many ways. The following 10 steps will be taken to resolve the current money problems: a) Latent fund potentials will be tapped. The targets that the state has assigned to Jilin in 1989 to tap latent potentials by the inventory of warehouses will be broken down and carried out in the same way as in 1988; b) mutually defaulted loans will be cleared up; c) funds will be raised in many ways; d) a patriotic movement will be organized and launched throughout Jilin to increase fixed savings deposits, and both urban and rural residents will be actively organized to save more; e) reform steps favorable to collecting funds will be actively supported; f) unused special enterprise funds will be allowed to be used for production turnover to make up circulating fund shortages; g) finished products and issued commodities will be transformed as quickly as possible into fund sources; h) cash control will be strengthened, the method of settling accounts will be improved, and cash circulation will be reduced; i) issuing of bonuses and allowances will be strictly controlled, and reckless issuing of money and materials under all sorts of pretexts will not be permitted; j) fund turnover will be speeded up.

7. The contract system will be improved and enterprise reform will be deepened. The present priorities for enterprise reform are to improve the contract system, deepen complete reforms within enterprises, and stimulate enterprise management forces. Contracts make it

possible to improve, but do not replace, enterprise management. The advantages of the contract system will not be able to be brought into full play if management is not emphasized.

Comrade Wang Zhongyu also gave his views on promoting the building of a system of honest and clean administration, maintaining and improving the honesty of government personnel, opposing corruption, and conscientiously improving leadership methods and work styles.

Vice governors Gao Wen [7559 2429], Li Dezhu [2621 1795 3178], Hui Liangyu [0932 5328 3768], and Wang Yunkun [3769 0061 0981] attended the plenary session. Responsible comrades from all municipal, prefectural, and autonomous prefectural governments (administrative offices) attended the plenum as nonvoting delegates.

## FINANCE, BANKING

### Finding Root of Industrial Capital Shortage

40060634 Beijing JINRONG SHIBAO in Chinese  
15 Jun 89 p 2

[Article by reporter Tan Guangyun 6151 0342 0061: "Where is the Root of Current Shortage of Industrial Capital?—Thoughts After the Jiangsu Tight Money Market]

[Text] Since the tight money market in the fourth quarter of last year, the cries of local governments and enterprises over shortage of capital have been unceasing. Yet the reorganization of the credit structure in the tight money market is not ideal and the flexibility of enterprise capital due to suitable markets for goods and good economic efficiency has first of all been harmed in the tight money market impacting effective supply.

Was the tight money market really overdone? The answer is negative. In the case of Jiangsu, the value of Jiangsu's industrial production accounts for one-eighth of the nation's industrial production. It has the greatest capital gap and is one of the provinces that complains fiercely. Compared with the previous year, in 1988 the value of this province's industrial production grew 26 percent and bank loans grew 9.6 percent. Compared with 1988, in 1989 the province's planned value of industrial production grew about 12 percent, and planned bank loans grew 6.5 percent. Bank loan growth for 1989 cannot be considered small when compared to 1988 figures.

Many comrades have attributed the problems to the fact that industrial structure, product structure and credit structure are not sensible. Yet in my view, limiting it only to this is very biased. Enterprise self-owned capital funds were insufficient, the previous year's economic efficiency was a sham, and the impulse to continue pursuing a high rate became a heavy burden and this is a deeper cause.

That the proportion of self-owned floating capital funds of China's industrial enterprises is too low and that production management relies too much on bank loans are old problems which have long been unresolved. In the example of Jiangsu, now most industrial enterprise self-owned floating capital funds make up only approximately 20 percent of all floating capital funds used for production turnaround, very few reach 30 percent and many are below 5 percent or have negative balances. That the proportion of self-owned floating capital funds is too low is the result of enterprises and their upper echelon departments in charge stressing only fixed assets investment for a long time and ignoring supplementing self-owned floating capital funds. From 1983 to 1988 the overall growth in enterprise profit and taxes of the Nanjing Jinling Petrochemical Company was 55 percent, the growth in fixed assets used for production was 55 percent but the increase in self-owned floating capital funds was only 10 percent, with the result that bank loans grew 59.5 percent. Over-reliance of enterprises on bank loans to expand production actually exceeded the ability of banks to bear this long ago. When the banks tightened up on money, how could the enterprises not complain?

The false economic efficiencies of previous years is also an important cause of this year's shortage of capital. Again in the example of Jiangsu Province, compared with 1987, the value of production carried out by state-run industrial enterprises in the Jiangsu budget grew 11.8 percent, income from sales grew 25.2 percent, gross profit and taxes grew 20.4 percent, and actual taxes and profits had their highest growth in recent years. This would seem to be an encouraging situation, but this "economic efficiency" did not come from relying primarily on improving labor productivity and management and administration, but to a very large degree came from dependence on price changes and abnormal fluctuations in the market. Compared with 1987, in 1988 prices of Jiangsu's primary industrial manufactures increased 29.25 percent, and, according to estimates, adjusted for inflationary factors, taxes and profits realized by Jiangsu's local state-run industrial enterprises actually dropped 9 percent compared to the previous year.

Although the Central Committee has repeatedly commanded that we should restrain the overheated economy, control the scale of investment in fixed assets, and slow down the rate of production growth in order to relax the contradictions of shortages of capital, energy, and raw materials, but up to now, the impulse of local areas and enterprises to pursue and scramble for rates of economic growth has not completely subsided. The rate of economic growth in many local areas has now decreased, but not many have done so voluntarily. Jiangsu's state-run enterprises rely heavily on bank loans, collective and township enterprises rely little on bank loans. After the banks cut back on loans, compared with the same period last year, between January and April of this year, the value of production of state-run industrial enterprises grew 2 percent, the value of production of collective industrial enterprises grew 16.7 percent and the value of production of

township industrial enterprises grew 23.8 percent. The situation nationwide is roughly the same, with the rates of growth of the three being 8.6 percent, 19.7 percent, and 25.3 percent, respectively. In the first quarter of this year, the scale of investment in fixed assets of 12 provinces and municipalities nationwide has not only not been reduced, but is still expanding. The situation in provinces and municipalities which have cut back is not entirely satisfactory either.

Whether viewed in the long-term or the short-term, although it is essential that resolving the problem of China's shortage of industrial enterprise capital depend on readjusting industrial structure, product structure, and credit structure, this is far from enough. Establishing and perfecting an enterprise floating capital funds guarantee mechanism so that enterprise production turnaround is suited to the needs of floating capital funds and is suited to the endurance of bank credit, is a problem which urgently needs to be resolved. Under present conditions when inflation cannot yet be controlled we should stipulate that in their bookkeeping, enterprises preserve the value of self-owned capital funds and bank loans and make automatic supplementary floating capital funds which rise with the price index part of the cost of goods. In addition, we should also formulate stiff measures for compulsory enterprise supplementary self-owned floating capital funds and enforce them firmly. Banks can no longer exceed their own endurance and show mercy to enterprise floating capital fund shortages.

Naturally, the consequences of doing this may lead to enormous deficits in state revenue and expenditures. However, bringing the state deficit into the open, mobilizing all levels of government and citizens nationwide to face it squarely and make concerted efforts to resolve it through increasing income and economizing on expenditures and improving economic efficiency and efficiency of operations is better than covering it up. Hiding the deficit in very unclear bank loan revenue and expenditure balances, and in supply and demand balances of floating capital funds of thousands and thousands of industrial enterprises, so that everyone is blindly optimistic, creates obvious inflation and mistaken expectations of enterprises and citizens with regard to inflation and price increases. This is not good for stable growth of the economy and is not good for social order.

## FOREIGN TRADE, INVESTMENT

### Strategy To Expand Garment Exports

40060613 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 4, 30 Apr 89 pp 35-36

[Article by Wang Rong 3076 2837 7729: "Market Strategies for Expanding China's Garment Exports"]

[Text] All textile exporting nations and regions of the world are expanding their garment exports in order to increase the economic effectiveness of their textile



exports. China is a leading textile exporter but is only a minor player in garment exports. China's 1986 garment exports were only one-ninth of Hong Kong's, one-seventh of Taiwan's, and one-sixth of South Korea's. We are far behind and must start hustling to catch up.

The industrial mix of the world economy is currently undergoing an adjustment. The world textile and garment industry is shifting production to those nations and regions where cheap labor can be had. Not only are labor costs low in China, but we've plenty of raw materials for textiles, and garment production is a tradition with us. This gives us advantageous conditions for stimulating garment production. In recent years, changes in international currency exchange rates have provided yet another opportunity to China's garment production. Under these circumstances, China should focus on moving into and strengthening its position in the garment markets of developed nations, as well as exploiting other potential markets and implementing a market strategy of multi-directional exporting.

In the last 20 years, over 60 percent of our textile exports have been going to such markets as the U.S., Western Europe, Japan, Hong Kong, and Macao. We have the potential to further expand our recipients of our textile. The best method for doing this is to "gain victory through quality" by working hard to raise the quality and grade of our garments while simultaneously stressing both quantity and quality. One aspect of this is to continue exporting raw garment materials and low grade garments, and strengthening our hold on the markets we now are in. The other aspect of this is to actively develop exports of medium and high grade garments with high added values. In particular, we must greatly increase our exports of fashion garments and work to capture greater market percentages.

Hong Kong, Taiwan, and South Korea have long been the main suppliers of the world's medium and high grade garments. In the last one or two years, the textile and garment industries in these nations have felt the effects of currency appreciation and higher labor costs. The advantage they once enjoyed due to low cost production has gradually been lost and they have not yet fully come to establish a new advantage. China should not miss this opportunity to quickly step in, start producing medium and high grade garments, and penetrate the garment markets of the developed nations. The following measures must be taken in order for China's garment exports to strengthen and expand their position in the markets of developed nations:

1. Strengthen market analysis, and produce and export garments based on market demand. Consumers in Europe and the U.S. are concerned with labels, quality, and styles. Our garment exporting factories should keep these points in mind as they continually design and produce garments of ever-changing styles, flourishes, and colors that suit the demands of these markets.

2. Fastidiously meet delivery deadlines. A French clothing designer said that "the clothing fashion of the 1990's will be to have no fashion." This, of course, doesn't mean that fashion will come to replace one another so fast that fashion will truly disappear. What he meant was that popular clothing fashions will come to replace one another so fast that one will be unable to distinguish them. China's garment exports must be designed, produced, shipped, and delivered quickly so as to meet the increasingly mercurial needs of popular clothing markets the world over.

3. We must export more to those developed nations that have no quota limitations. Unlimited amounts of textile products can be exported to Japan. Also, Japan is China's neighbor and shipping is only a minor factor. More importantly, the rise in recent years of the Japanese yen has caused a voracious appetite for textile products and garments in Japan and Japan is now importing massive amounts of textile products. China should take advantage of this opportunity and work hard to increase garment exports to Japan.

4. Expand quota restricted exports. First, we must make sure that we use up our entire quotas. At present, the competition in international textile product markets is fierce, trade protectionism is in vogue, and quotas for textile products are practically all allocated already. However, China still hasn't used up its garment export quotas in Western European nations. We must design and produce garments suitable for sale in Western nations and fill our quotas. Also, we must raise the utilization rate for numerical quotas. Nations with numerical quota limitations quite often place no quota limitations on price, quality, packaging, or attached products. We should heighten such things as the price, quality, and grade of our garment exports and substantially raise the utilization rate of numerical quotas.

5. We should move overseas and invest, set up factories, establish offices, and build strong marketing networks. China can enter into joint ventures with Latin American nations to set up garment factories. This will simultaneously enable us to make use of Latin America's garment export quotas to the U.S. and Canada to expand exports, and enjoy the 12 year tax free preference for product exports the U.S. extended to Caribbean nations in 1984. China can also enter into joint ventures for setting up garment factories in such nations as Spain, Portugal, and Greece, make use of the preferential transit trade conditions in the Western European Common Market, and skirt around the quota limitations placed on garment imports by Western European nations. In addition, we should operate commercial offices and establish marketing networks in these nations so as to put China's garments onto the markets of the developed nations. If we adopt the above-mentioned measures, not only will we be able to expand garment exports, but also we will be in a good position to keep abreast of new information in the international garment markets, we will produce garments that are suitable for sale in the markets, we can

keep in direct contact with wholesalers, retail outlets, and consumers, and we will be able to maintain unobstructed marketing channels.

We have yet to fully exploit garment exports to such potential markets as the Soviet Union, Eastern Europe, Africa, and Latin America. We should push harder to put our garments onto those markets so as to carry out a multi-directional export market strategy. Mutual trade allowances between China and the Soviet Union and Eastern European nations are considerable. Currently, there is a huge demand for textile products in these nations. The demand for textile products is particularly strong in the Soviet Union, which has consistently been among the top ten importers in the world. In recent years, trade dealings between China and the Soviet Union and Eastern European nations have grown remarkably as we have adjusted our foreign policies toward these nations. They have tremendous desire to import garments from China and the potential demand is enormous. The primary demand in these nations is for medium grade garments and the material requirements are not particularly troublesome. China is fully capable of producing garments that meet the demand in these markets. Popular designs in the Soviet Union and Eastern European nations for the most part lag behind those in the U.S. and Western Europe. If we keep up on fashion design in the U.S. and Western Europe and design and produce suitable garments in a timely manner, they breaking into the garment markets of the Soviet Union and Eastern Europe should not prove to be too difficult.

In recent years, the African economy has taken a turn for the better and demand for garments grows daily. However, China has not done a good job at developing this market. Numerous Latin American nations would like to expand their garment imports from China, though many of them are saddled with foreign debt. Also, Middle and Near Eastern nations have a considerable demand for garment imports. Taken as a whole, this region represents a good sized market and, moreover, they are not looking for particularly high grade garments and this fits in just fine with our current export levels.

China must construct an export-oriented garment industry system centered around consumer demand in the international garment markets in order to fully implement the multi-directional market strategy for garment exports. This system requires our garment industry to break free from the shackles of a purely production oriented viewpoint and start operating under a production and management viewpoint guided by exports. Garment designers must create their design on the basis of consumer demand. Material designers must come up with materials that meet the needs of the garment designers. Garment factories must process the garments according to the demands of the garment designers. Supplementary material factories, ornament and jewelry factories, and garment machinery factories must provide supplementary materials, ornaments and jewelry, and

garment processing machinery based on the demands of the garment designer. Garment production enterprises, foreign trade enterprises, and shipping departments must act in close concert to make good on their contracts, improve the reputation of our exports, and make deliveries on time. Yingxiao activities must aim to stimulate the consumer's desire to buy. Foreign trade system reforms must quickly create as many conditions as possible to allow for expansion of garment exports. In conclusion, we need tight links throughout the garment-export chain from design and production to sales. Every department must keep market economics foremost in their minds and everyone must train their sights on the demand of the international garment markets. Let us expend great efforts to organize China's garment exports and by the year 2000 make China the "garment capital of the world" and the "fashion garment capital of the world."

**Prospects for Foreign Trade Contract System**  
40060619a Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
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[Article by Fu Ziyang 0265 5261 2019: "The Foreign Trade Contract Management Responsibility System; a Retrospective and a Look Ahead"]

[Text] The year 1988 was important for China's expeditious and deepening reform of its system of foreign trade, taking the foreign trade contract responsibility system as the principal ingredient of the new foreign trade system, and promoting it throughout the nation. What changes has the new system brought about in the development of China's foreign trade? What new difficulties and problems does it face? How should it be perfected and developed? It is essential that these be reviewed, summarized, and given serious study.

#### **Profound Changes and Effects Caused by the Foreign Trade Contract Management Responsibility System**

During 1988 the implementation of the foreign trade contract management responsibility system was the principal ingredient of the new foreign trade system. At its core each province, self-governing region, municipalities directly under the central government and planned single municipality governments, as well as state foreign trade, industrial trade import-export corporations, separately contract with the state to make exports for foreign exchange, and hand over to the central authorities foreign exchange and economic benefits in three-item quotas. There will be no changes in the contracted quotas for 3 years. Each province, self-governing region, directly-governed municipality and planned single municipality government as well as state foreign trade and industry import-export corporations also contracting three-item quotas layer upon layer will be broken down and turned over to each export operating enterprise and export-producing enterprise. In addition, due to existing multiple layers of backwards contracts, the

state will relax restrictions in the foreign exchange system and profit distribution policy, to positively stimulate local governments' and enterprises' enthusiasm for foreign trade. China has greatly increased the scope of its foreign trade. According to business statistics from the Ministry of Foreign Economic Relations and Trade the total volume of foreign trade nationwide in 1988 was \$79.4 billion, a 16.7 percent increase over 1987. This consisted of \$39.3 billion in import trade, a 17.7 percent increase over 1987, and \$40.1 in export trade, a 15.5 percent increase over 1987. This demonstrates that the foreign trade contract management responsibility system has profoundly altered the development of China's foreign trade, and reform of the foreign trade system has seen preliminary successes. This is chiefly reflected in the following several aspects:

*1. It has further aroused the enthusiasm of local governments for expanding exports, and created excellent conditions for a coastal economic development strategy.* In the foreign trade contract management responsibility system, it is most important to clarify the distribution relationships between the central and local governments. After the base foreign exchange is handed over to the central authorities, according to contractual provisions, up to 80 percent of foreign exchange in excess of the base can be reserved by the localities. Therefore, at the same time that local governments hand over the foreign exchange in the contract to the central authorities, the visibility of each locality's foreign exchange reserve can be greatly increased. Moreover, the central government also relaxed its policies on localities' power to examine and approve foreign exchange enterprises, foreign exchange control and processing of imported materials. It also stimulated the enthusiasm of localities for expanding foreign trade and earning foreign exchange through multiple exports, especially in coastal regions, which encourages the implementation of a coastal economic development strategy.

*2. Foreign exchange enterprises' financial affairs self-restriction mechanisms have been strengthened, and enterprises' economic benefits have been enhanced.* The foreign contract management responsibility system, disclosing layer upon layer of economic benefit targets, changed foreign trade enterprises' "big iron pot" financial system that had evolved over many years and egalitarianism's distribution system, and strengthened foreign trade enterprises' financial budget restraint mechanisms, which stimulated enterprises to raise economic benefits and seek profits' inherent impetus at the same time they expanded their earning foreign exchange through imports. Although the national economy faced serious inflation in 1988, the nation still obtained comparatively good economic benefits from foreign trade. It is estimated that in 1988 the economic benefits to the entire nation from foreign trade were an average of 3.3 percent higher than in contractual stipulations.

*3. Exports of finished products increased somewhat, and the export commodity structure improved progressively.* China is a country where resources belong to all the

people; however, it is not a prosperous nation, and there is still a gap in its domestic supply of raw materials. Therefore, it is impossible to rely upon a massive increase in our export of raw materials as a means of increasing the amount of foreign exchange earned. Each local government and enterprise is increasing its exports, adopting many preferential policies and flexible trade models, and giving priority to arranging for the manufacture of finished products for export and the technological transformation of equipment, in order to further increase export of finished products by a considerable amount. Preliminary customs statistics indicate that the proportion of exported finished products of total exports during 1988 was 3 percentage points higher than it had been in 1987.

*4. There have been major reforms in the foreign exchange system, which further relaxed the controls on foreign exchange.* Starting in 1988, the state adopted norms for the control of foreign exchange which allowed local governments and enterprises to have exchange reserves, and to make their own decisions concerning the use of their exchange within the scope of the national policies on imports. At the same time, in order to blend well the funds from foreign exchange, accelerate the turnover of enterprise funds, and raise the benefits from using foreign exchange, the state progressively opened up some regulated exchange markets. With appropriate intervention by the Central Bank, this permitted the reserved exchange of local governments and enterprises to freely enter the foreign exchange markets, using market mechanisms, so that exporting enterprises were definitely compensated for what they lost due to the targeted high rate for RMB exchange. This, to a very great degree, created the conditions for contract management in foreign trade enterprises, and their own responsibility for profits and losses.

*5. Reform the tax system, with a thorough reform of the export drawback system.* Implementing for export commodities a return of the various taxes paid on links in the production chain has led many nations to enthusiastically participate in the international division of labor, and is a common method of raising the competitiveness of products in the international market. China's system of taxation is relatively complex, as well as illogical, and the taxes on export commodities in the production and circulation cycles are too heavy, to the point where they lack competitive force in the international marketplace. In order to raise the competitiveness of Chinese exports, and compete on equal terms with the exports of other nations in that marketplace, China in 1988 implemented new export taxation policies: for implementing value-added tax products, levy an overall tax according to the value-added tax rate; for implementing product-tax products, levy a one-time tax according to the overall tax rate. This will strengthen the competitiveness of China's export products and the profitability of enterprises, and create the conditions for enterprises to assume responsibility for their own profits and losses.

6. *To move forward in turning over authority over imports and exports, a group of production enterprises were pushed to enter the international market.* Originally from various foreign trades, industrial trade import and export companies that managed local branches, all but a few gives authority to localities, local governments carried out management according to the unified policy of the state, while assuming the contractual responsibilities of the local governments. At the same time, the central government also extended to local governments the authority to examine and approve the management of foreign trade enterprises, pushing into the international marketplace a group of production enterprises that have good manufacturing conditions, with products of excellent quality, and are strongly competitive.

7. *Through the use of economic regulatory measures, the government should indirectly control maximizing foreign trade progressively.* Due to the "big iron pot" foreign trade enterprise system of financial affairs, for a long time the government has found it very difficult to use economic regulatory measures to regulate foreign trade activities. After the foreign trade contract management responsibility system was put into effect, because foreign trade enterprises took on responsibility for their own profits and losses, budgetary restrictions' functions were strengthened, and the government used such economic regulatory measures as customs duties, prices, exchange rates, and interest rates to daily strengthen foreign trade, and cut down on administrative interference with enterprises, making enterprises progressively travel the path of being responsible for their own profits and losses.

8. *Promoted the progressive delegation of powers by the central government.* To ensure normal operation of the new foreign trade system, while the central government concurrently implemented foreign trade contract responsibility for local governments and enterprises, it also delegated partial powers. Important items included in this are: delegating the authority to examine and approve the operation of foreign trade enterprises; lifting restrictions on the authority to examine and pass on the attraction of foreign investment by coastal economic zones; diminishing the quota and license distribution authority; lifting restrictions on the authority to examine and approve processing imported materials and the "three forms of import processing and compensation trade" system which limits variety; on the premise of foreign exchange voluntary equilibrium and self-responsibility for profits and losses, relaxation of restrictions on the operational authority of localities and enterprises to trade easily with the Soviet Union and the nations of Eastern Europe; delegation of authority to examine and approve overseas branches of enterprises and export trade organizations, etc. Central government departments, through partial delegation of power, will decrease its direct involvement in enterprise management, in order to create the conditions for strengthening macroscopic management and improve government services.

#### **Difficulties and Problems Confronting the Foreign Trade Contract Management System.**

Although there have been initial achievements in the foreign trade contract management system, the present economic circumstances still are confronted with some new difficulties and problems.

1. *The pressures of domestic inflation.* Due to large domestic price increases in the last several years that set off a constant rise in domestic cost of manufacturing products for export, the profitability of export enterprises has been weakened, and to a certain degree has restricted the growth rate of export trade.

2. *The pressures of tight credit.* Due to the state policy of decreasing credit, some enterprises which produce products for export and foreign trade enterprises are confronted with the difficulties of fund shortages, which has affected production of export goods and export operations.

3. *The supply of goods for export is getting tighter by the day.* Due to the appropriate curtailment of the domestic economy's growth rate, some commodities which are sold both domestically and abroad can produce or aggravate the contradiction wherein a small number of products which are quite attractive on the international market are in short supply at home.

4. *In a few areas there have emerged regional blockades and barriers on a small number of resource-type commodities.* Because foreign trade contracts chiefly take the local government as the contractual entity, some local governments, in order to fulfill contractual quotas, have placed administrative blocks and barriers on a small number of scarce, locally-produced resources. This has affected the normal flow of some commodities, and has definitely affected the macroscopic, rational distribution of the nation's resources.

5. *To a certain degree, the short-term conduct of foreign trade enterprises has been upset.* Due to the common use of contract management and self-responsibility for profits and losses among foreign trade enterprises, the state has relaxed its restrictive policy regarding allocation among enterprises. Some enterprises have taken short term actions which stem from their profit-seeking motive. For example, in operational policy decisions, they have pursued short-term profits, with their spending on material benefits exceeding what they had earlier been allocated, and a part of these enterprises' self-accumulating function is accordingly weakened, etc.

The writer recognizes that some of the difficulties and problems related above are due to the influence of the entire national economy, and some are abuses that accompany the contract system itself. These difficulties and problems can be overcome and resolved only by subordinating the nation's overall economy to the



demands of reform, by continually perfecting the foreign trade contract management responsibility system, and by continually deepening reform of the foreign trade system.

### **Perfecting and Developing the Foreign Trade Contract Management Responsibility System.**

How can China's foreign trade contract management responsibility system be further perfected and developed? This writer believes that reflection and study on this topic should proceed from the following two aspects.

*1. Strengthen the central government's macroeconomic management, while intensifying economic regulatory measures.* Strengthening the macroeconomic management by central government departments can be done chiefly by coordinating the management of the foreign trade policies of the various local governments, to assure unification of the entire nation's foreign trade policy. The central government will strengthen its strategic leadership of local governments in developing foreign trade, coordinate the export structure, and in its macroeconomic management of imports and exports, will do a good job of rationally deploying society's resources. At the same time, it will strengthen its planned management of that small number of export commodities that have considerable bearing upon the national economy and the people's livelihood or have major impact upon domestic markets. Of the regulatory measures to strengthen the economy, the principal one is to steadily improve each policy measure in the foreign trade contract management responsibility system, with special attention given to studying the movement of such economic measures as prices, exchange rates, customs fees and credit. This will assist foreign trade enterprises in eliminating on their own the difficulties created by inflation and shortages of funds, to go forward in perfecting the foreign trade contact management system and create a better macroeconomic environment.

*2. Strengthen enterprise management, establish and perfect foreign trade enterprises' management mechanisms.* After foreign trade enterprises implement contract management and self-responsibility for profits and losses, export responsibility and profit risks will both fall to the enterprises; therefore, above all, those powers which enterprises should have should be completely given over to them, and chief among these are self-management authority, payroll authority, authority to handle allocation of funding, etc.

Secondly, enterprises should be directed to handle well their internal contracts, steadily strengthening their self-restraining function. Such forms of internal contract as inviting bids for contracts and contractual risks for all personnel should be spread throughout enterprises. Benefits for enterprise leadership and workers should be merged with the enterprises' contractual results, strengthening the enterprises' self-restraint. Concurrently, strengthen the guidance of enterprises in handling

well the relationship of their long and short term benefits, causing the enterprises to use the greater part of their reserved profits to expand development of their export work.

In addition, be serious about the fundamental work of enterprise management, giving total backing to the management by tenure objectives responsibility system. At present, in many foreign trade enterprises the fundamental work of management is still totally weak, and the rules and regulations governing internal management are imperfect. There should be assistance to enterprises in spreading management by objectives and fixed production quotas, to raise economic benefits. At the same time, seriously implement the provisions of the "Enterprise Law," forming a policy decision system for enterprises which has management at its center, establishing and popularizing the management by tenure objectives responsibility system. Besides this, also strengthen the democratization of enterprise management, the enterprises' major policy decisions and related supplementary policies. There should be democratic discussions with workers, strengthening enterprise policies' transparency and democratic foundations, fostering workers' interest in the enterprise's economic benefits and their enthusiasm for the self-restraining operational functions. This will strengthen enterprises' coordination efforts and the workers' ability to endure the risks of enterprise.

Within the period of the foreign trade contract management responsibility system, if the two problem areas discussed above are handled and solved well, China's foreign trade contract management system is bound to display greater vitality, and can produce in the development of foreign trade greater change and obtain better results. Naturally, the foreign trade contract management system currently in effect in China is still not completely reformed in such systems as pricing, public finance, taxation and banking; every kind of economic relationship still lacks the appropriate conditions for implementing transitional reform measures. This writer believes that it is only through progressively perfecting and developing the foreign trade contract management responsibility system that we can realize the foreign trade system reform objectives of "self-responsibility for profits and losses, opening up management, merging industry with trade and spreading the system of representation."

**Fujian Governor on Need for Foreign Trade**  
OW2407034089 Fuzhou FUJIAN RIBAO in Chinese  
23 Jun 89 p 1

[Excerpts] "Efforts must be made to persistently carry out reform, open to the outside world, face the new situation, tackle new problems with effective measures, work hard with revolutionary drive, boost our morale, overcome difficulties, continue to do a good job in carrying out economic and trade work in the province, and promote developments in the course of stabilizing

the situation." This was the requirement put forward by the 13th regular meeting of the provincial government held on the afternoon of 19 June.

The meeting was presided over by Vice Governor You Dexin, with special emphasis on the study of Fujian's economic and trade relations with foreign countries. [Passage omitted]

You Dexin, Shi Xingmou, and the responsible comrades of other departments concerned spoke at the meeting.

In a summing-up speech, Governor Wang Zhaoguo offered a 10-point suggestion as follows:

1. Staff members and workers of the various departments in charge of economic and trade work with foreign countries must study hard and implement Comrade Deng Xiaoping's important speeches, firmly adhere to the four cardinal principles, and resolutely carry out reform and open to the outside world. They must fully realize the current situation, overcome difficulties, and adopt effective measures to properly solve the existing major problems. They must boost the morale, do a good job in maintaining fine economic and trade relations with business establishments abroad and promote developments in the course of stabilizing the situation.

2. It is necessary to give widespread publicity to the political and economic situation in Fujian. [Passage omitted]

3. Under the present situation, we must continue to attract more foreign businessmen to make investments in China. We must carry out our work well to set up more Chinese-foreign joint ventures, cooperative enterprises, and enterprises run exclusively with foreign investment. Water works, power companies, and transportation departments must take the initiative to serve these joint ventures and cooperative enterprises. All these departments must coordinate to improve their services.

4. Strenuous efforts must be made to fulfill the contracts which have already been signed. Particular efforts must be made to fulfill the contracts which we signed with Taiwan businessmen last year. The provincial commission for economic and trade relations with foreign business establishments must expedite the procedure of examining and approving projects involving businesses with foreign merchants.

5. We must spend more money to import technologies from foreign countries, transform new enterprises and show our friends with our actual deeds that our economic policy has not changed.

6. In carrying out foreign trade and export business, we must reform the foreign trade system, strengthen management of export goods in large quantity, improve the quality of export products, expand the supply of goods from other provinces, and quickly solve problems caused by our money shortage.

7. We must vigorously carry out propaganda work and explain our domestic situation to foreign businessmen. Various enterprises must take the initiative to explain to their business connections abroad the truth of events during the counterrevolutionary rebellion in Beijing and the current situation in Fujian, and help foreign businessmen dispel their worries, so that they may continue to develop friendship and business cooperation with our province. [Passage omitted]

8. We must set up a file system regarding foreign investments and business opportunities, and energetically attract more foreign investment. It is essential to develop projects concerning communications, energy resources, raw materials, and agriculture.

9. Efforts must be made to invigorate the financial market. This is an important link. The various banking and financial departments in the province must coordinate to make the best use of their funds.

10. It is necessary to maintain good relations with enterprises outside China, through which we may attract more foreign businessmen and friends to cooperate with us and develop foreign trade in Fujian.

### Shanghai's Obstacles To Attracting Foreign Investment

4000619b Beijing GUOJI SHANGBAO in Chinese  
30 May 89 p 1

[Article by Chen Xueyan 7115 1331 3601 and Yao Ximin 1202 6932 2404: "Shanghai's Joys and Worries in Attracting Foreign Trade"]

[Text] Just as the full moon can be partial, a person can be in a melancholy mood. When it comes to attracting foreign investment, Shanghai does not have its own "joys" and "worries."

To be sure, Shanghai's position is gratifying when it comes to attracting foreign investment. Not long ago, at a conference on the economics and legalities of Shanghai's attracting foreign investment, reporters learned that up to the end of this March, Shanghai had approved the use of foreign investment in a total of 1,109 projects, drawing upon \$3.055 billion in foreign funding. Of these projects, 592 were funded directly by foreign firms, drawing upon \$2.319 billion in foreign investment; 441 projects were on commodity credit, drawing upon \$189 million in foreign investment; 76 projects drew upon various types of loans, involving some \$546 million in

foreign investment. Looked at from the investment structure, 72.13 percent were industrial products, while 15.71 percent were projects in tertiary industry.

By the end of March, there were 198 businesses in tertiary industry which had gone into operation in Shanghai, with the overwhelming majority of these businesses operating very well, and getting more prosperous year by year. In 1984 the total output value of Shanghai's tertiary industries was 49.54 million yuan; by 1988 this had increased to 3.7827 billion yuan. Exports have also increased steadily year by year. In 1984 the total output value of tertiary industries in the municipality was 8.32 million yuan; by 1988 this had been raised to \$142.8 million. Tax revenues for 1988 handed over to the state by Shanghai's tertiary industries were a hundred-fold greater than in 1984.

Shanghai's use of foreign investment to attract international advanced technology and management experience motivated a group of economically successful enterprises to develop many upgraded, new products. The Shanghai Joint Wool Spinning and Weaving Corporation was established in 1983, and its profits and earned foreign exchange have increased annually at rates of 40 and 30 percent, respectively, so that the enterprise actually recovered the amount invested 3 and one-half years earlier than estimated. At the China Xun Da Corporation's Shanghai Elevator Plant, after joint investment, the labor production rate for all personnel was 2.86 times what it was prior to joint investment.

Shanghai has had both "joys" and "sorrows," in attracting foreign investment. There is a series of important problems which have an intense "sense of urgency" about their resolution.

In the macroclimate of controlling and rectifying, attracting foreign investment is limited by such conditions as domestic, matching funds, fixed assets, the scope of investment, the supply of materials and energy, etc. By the end of 1988, while foreign businesses actually contributed \$650 million, Chinese renminbi was in such severe shortage that even though concerned departments issued bonds, the situation was by no means optimistic. Some people suggested that the way out lay in: 1) amassing scarce funds for use in those projects which were deemed essential; 2) linking the foreign funding attracted with the transformation of older enterprises and the adjustment of industrial structure, then "graft" foreign funding, technology and management onto these older enterprises to refurbish their equipment, and improve the quality of their products and allowing them to break into the international market; 3) positively encourage foreign firms to handle independently funded enterprises.

Conscientiously resolve the question of the direction of investment. For some time now, Shanghai has annually published abroad a catalogue listing industries and projects, encouraging foreign businesses to invest in

them. However, the outcome has been far from ideal. Many came to talk, but few discussions accomplished anything. This was reflected in our overseas business. The projects we announced were "more often than not emotional," and "all were boneheads who can't eat meat." To people of insight, attracting foreign investment should be based on equality and mutual benefit. That is, there should be consideration of the advantages to the Chinese side, but also prospects of gain for the foreign businesses.

Further clarify policies, laws, and regulations. The nation and Shanghai have promulgated many laws and regulations concerning the attraction of foreign investment, but foreign businesses are still deeply concerned, fearing that we will be unable to seriously implement them. In this regard, a great many abuses do exist, such as a lack of clarity in policies and laws, namely by public laws being interpreted internally. Foreign companies lead off talks by expressing their "hope that the Chinese side will make its internal interpretations public"; revolutionary documents can negate laws, the revolutionary documents of departments can negate revolutionary documents of the State Council. These unpredictable changes in policy cause a lack of confidence in foreign businesses.

Along with the granting of powers, there should be macroeconomic regulation. Last year, Shanghai granted to districts and counties the authority to examine and approve investment projects under 5 million. This was undoubtedly useful in accelerating attraction of foreign investment, but at the same time it brought with it some questions: some enterprises in their eagerness for profits duplicated imports (9 containers, 7 emulsion gloves, 4 plastic products and 4 exercise shoes), which created unmarketable overstocks. Some enterprises, lacking both advanced technology and real foreign investment, considered their projects strictly from the standpoint of benefits to the enterprise or the individual; therefore they pursued a policy of spending investment funding on purchases, which did the nation no good. Some enterprises competed with foreign trade departments for their supply of goods, while manufacturing products of inferior quality, and therefore lacked the ability to compete in international markets. Some enterprises did not use their limited foreign investment funds to develop their production, but instead spent these on automobiles or office supplies, which ran counter to the basic objectives of attracting foreign investment. Shanghai decided that in granting powers, it would at the same time strengthen its macroeconomic regulation of districts and counties in their work of attracting foreign investment: 1) before a district or county sets up a project, it must notify the municipal foreign economic trade commission, so that the latter body will, through unified coordination, avoid needless duplication of imports; 2) strictly check all ratification documents as they are published, so that if a district or county project is inappropriate, the municipal economic trade commission can veto it within 7 days.

## TRANSPORTATION

### Article on Improving Transport Market

HK1607051089 Beijing JINGJI GUANLI in Chinese  
No 4, Apr 1989 pp 49-51

[Article by Lu Qinzhi 7627 0530 2535: "Thoughts on the Rectification and Improvement of the Transport Market"]

[Text] The rectification and improvement of the transport market is not only a necessary condition for deepening the current reform of the transport system but constitutes an important component of the deep-going reform of the transport system. An important part of the proposed change in the functions and powers of the government's communications and transport departments is to carry out macroeconomic control and management of water and land transport in accordance with the formula of "the state regulates the market and the market guides enterprises." Following the development of the commodity economy in China, transport enterprises and units engaged in the transport trade will all want to play a part in the activities and competition in the transport market. The extent of development and structure of the transport market as well as the codes of conduct in the transport market have a direct bearing on the activities and economic benefits of the transport enterprises and units engaged in the transport trade, and will push forward or prevent the intensifying of the reform of transport enterprises. The current situation in the transport market is such that it urgently requires rectification and improvement.

Over the last 10 years, the reform of China's water and land transport has been intensified step by step under the guidance of the open policy and the policy of invigorating enterprises. Through separating government and enterprise functions and handing over enterprises to the local authorities, the government's communications departments have gradually effected changes in their functions and powers, strengthened the management of transport services and the macroeconomic control of the transport economy, increased the decisionmaking power of enterprises, and invigorated the enterprises. The unitary system of public ownership which has long prevailed in the transport trade has been changed and diverse economic sectors have seen varying degrees of development. The multiple systems of ownership in the transport trade is better suited to the present level of productivity in China. The closed transport market which is characterized by departmental ownership and regional segregation, has been smashed and a situation of decentralization and competition has developed. These reforms have greatly promoted the prosperity and development of the transport market. Due to various reasons, problems still abound. The more salient problems are as follows: Owing to ineffective macroeconomic regulation and the unreasonable structure and distribution of the transport market, the various modes of transport are not properly provided for and cannot give full scope to their

potential. Since the transport market is not well-developed, the rules governing its operation are far from perfect, and conditions for fair competition are lacking, there is as yet no place for competition and the function of self-regulation has yet to be developed in economic operation. As a result of duplicated commands, multiple management and the lack of effective management based on unified coordination, malpractices such as illegal price increases or price cuts, tax evasion, bullying, cornering the market, exploitation by intermediaries are rife. These problems have resulted in confusion in the transport market, affected the improvement of economic returns in transport enterprises, and exacerbated the destabilizing factors in communications and transport, and are not conducive to the deepening of the reform of the transportation industry.

The development of a unified socialist commodity market is a long-term task. As a component part of this unified socialist commodity market, the transport market also needs considerable time to develop and perfect itself. In this connection, we must gradually strive for improvement in accordance with the generality of a unified socialist commodity market on the one hand and always bear in mind the unique characteristics of the transport market on the other. In the light of the current situation, we must tackle the following three tasks step by step through rectification and improvement if we are to develop an open and orderly transport market.

*First, we must strengthen macroeconomic control and properly manage the transport capacity and source of goods.*

In the initial stage of reform, it is perfectly correct to put the stress on the implementation of more flexible policies in the reform of the transport market. Practice has proven that the implementation of flexible policies have accelerated the growth of land and water transport capacity. Through direct negotiations between the consignors and consignees, consignment orders are now basically awarded on a selected basis. This has brought about unprecedented prosperity in the transport market. However, as China is a socialist country which practices the planned commodity economy, it is necessary to pay attention to the strengthening of macroeconomic control while implementing more flexible policies. If we fail to do this, we will not be able to develop an effective transport market where there is fair competition and the reform and development of communications and transport will be adversely affected.

In order to strengthen macroeconomic control, we must first grasp the restructuring of transport capacity and strike an overall balance in the application of transport capacity. At present, water and land transport capacity as a whole is seriously inadequate. This is particularly the case with boat transport, which falls behind demands in some places and on some routes and needs to be further developed. A major problem to be tackled in our present endeavor to develop transport capacity is the irrational structure. We must strike an overall balance and carry out rational readjustment. We must strengthen



investigations and study on the situation of supply and demand and suit the development of land and water transport to the needs of passenger and freight transport. Such overall balance should be multileveled, and the government's communications and transport departments at various levels should strengthen their work in this regard. There should be an overall balance between the development of land and water transport capacity on the one hand and the carrying capacity of roads, navigation routes, ports, stations and other basic facilities as well as the supply of fuel on the other. There should be a rational division of labor between different means of transport in terms of their scope of service and routes so that each can play its role properly. Different means of transport have different social functions and thus have different roles to play. As far as the technical pattern of transportation is concerned, we should gradually widen the gap between given means of transport so that each can give full scope to its superiority. In order to meet the varying needs of society for transportation, we should also carry out structural readjustments in connection with the functions, size and weight of the means of water and land transport.

We must also strengthen the organization and management of the source of passenger and cargo transport. The basic social function of communications and transport is to fulfill the task of transporting passengers and cargoes in accordance with the needs of economic and social development. Transport capacity must be combined with passenger and cargo transport to produce figures of passenger and cargo transport per kilometer. Thus, the strengthening of the organization and management of the source of passenger and cargo transport is a task of paramount importance. It is also an important task in our current endeavor to rectify and improve the transport market. Transport departments should make unified arrangements for transporting major supplies of the state and relief materials as well as arrangements for special transport needs, and ensure the fulfillment of these mandatory tasks. In major ports and stations where large quantities of goods are concentrated and distributed and in key projects, factories and mines where large quantities of goods are stocked, transport departments should help the units concerned to do a good job in managing goods and promote integral transport which links production, delivery and marketing as well as the public bidding and contract systems. As regards small quantities of goods, consignment on a selective basis should be practiced. We should continue to enliven the transport market by easing restrictions. No unit or individual should be allowed to have monopoly of goods and there should not be any blockade or barrier between departments and between regions. Direct negotiation between the consignor and the consignee should be encouraged. In order to smoothen contacts between the consignor and the consignee and protect the legitimate rights and interests of both parties, communications and transport departments of the government should systematically organize the establishment of water and land transport and trade centers that are geared to social

needs. These centers will provide services in terms of sources of goods, transport capacity, transport information and return cargo shipment. Support should be given to units and individuals wishing to engage in freight forwarding and information service businesses, but these businesses must be placed under the management of the government's communications and transport departments and conducted in accordance with law.

*Second, we must consolidate the order of the transport market and gradually improve market regulations.*

When various types of transport enter the transport market, they are subject to the pressure of the interest mechanism. Competition is bound to be keen and this will complicate their interrelations. They must follow given rules of behavior and conduct their business in accordance with law. Departments of communications and transport of the government must carry out consolidation and management in accordance with the "Regulations Concerning the Management of Water Transport," "Provisional Regulations Concerning Highway Transport" and other relevant rules and regulations promulgated by the State Council and enforce the laws strictly. At present, we must first do a good job in screening and consolidating units and individuals engaged in water and land passenger and freight transport (including hired cars and tour buses), delivery, loading and unloading, auto repairs and transport services, and check and see if they are operating in accordance with the provisions laid down in laws and government policies. Units and individuals that violate the legal or policy provisions or do not measure up to necessary conditions will be required to carry out rectification within a set time. If, after rectification they still do not measure up to the necessary conditions, they will be dealt with in accordance with law. Applications for starting or terminating businesses should be handled strictly in accordance with examination and approval procedures.

We must gradually improve market regulations. All vehicles and boats that are authorized to carry out commercial transport must be placed under the management of the government's communications and transport departments. Vehicles and boats engaged in passenger transport must operate in accordance with authorized routes, schedules and stations or ports. Efforts should be made to improve station and port facilities. With regard to vehicles and boats engaged in freight transport, we should gradually develop a rational system of division of labor in the light of the supply and demand situation and the scope of operation. Commercial vehicles and boats must have independent accounting systems, implement the state's transport policies, pay tax and fees in accordance with the relevant regulations and use standardized tickets, certificates and invoices.

The proper management of the transport market requires that we make comprehensive use of economic, administrative, legal, disciplinary, ideological and political means. We must continue to grasp education in

professional ethics, law and discipline in order to improve the quality and attitude of people engaged in the provision of transport services. Bribery and corruption, taking authorized possession of money from ticket sales or freight charges and other acts of violation of law and discipline should be resolutely investigated and punished. Supervisory departments should play their role in exercising supervision and management in accordance with law over people engaged in the transport trade. These supervisory departments should pay attention to their own ideological and work style. They should be highly disciplined, clean and honest.

*Third, we must improve the system of transport management.*

The improvement of the system of transport management needs to be carried out step by step along with the progress of the state's overall reform. At present, the task of primary importance is for the government's communications and transport departments to continue to effect changes in their functions and powers, separate the functions and powers and enable enterprises to be truly able to make their own management decisions, assume sole responsibility for their own profit and loss, check their own actions and plan their own development. Enterprises are the basis of the transport market. Only when enterprises are invigorated will the transport market be enlivened. Invigorated enterprises will not only help enliven and nurture the transport market, but will also help the government's communications and transport departments strengthen macroeconomic control over the transport economy by grasping the management of transportation instead of the operation of enterprises.

A major problem with the system of transport management is overlapping management, with too many departments issuing orders. A unified transport market must operate on the basis of a management system which is responsible for the unified coordination of the trade. It is quite clear which departments should be responsible for the unified coordination and management of the transport market. As functional departments charged with the management of communications and transport, the government's communications and transport departments are naturally responsible for the management of the transport market. By overlapping management we are referring to the following problems: First, the system of internal management is not well-balanced, vertical relations are not well-coordinated and the five-tier system of management of communications and transport departments has yet to be improved. Second, horizontal relations are complicated; in particular, there is a lack of clearly-defined areas of responsibility in external relations. Some of these problems are objective reflections of cross economic relations, which means that better coordination are in order. Some of these problems reflect problems with the management system, which needs to be improved step by step in the course of reform.

Communications and transport have a strong social character and give rise to all kinds of contradictions, which find concentrated expression on the transport

market. Hence, the rectification and improvement of the transport market is a formidable and complicated task. In the course of rectification and improvement, we must properly handle the following three relationships. First, the relationship between rectification and reform. The purpose of rectification is to improve the fruits of reform, prepare the necessary conditions for the deepening of reform and prevent the "restoration" of the old structure. As far as communications and transport are concerned, it is necessary to be on special guard against a return to the beaten track of "three unified controls." All measures of rectification and improvement must be conducive to the intensification of reform. Second, the relationship between the short-term and long-term objectives of the rectification and improvement of the transport market. The present measures of rectification are directed against major problems with the transport market. We must device measures that go well with the long-term objectives and are conducive to the improvement, cultivation and proper functioning of the transport market so as to create a good external environment for transport enterprises. Third, the relationship between administrative and economic means. In our work of rectification and improvement in the next year or two, the proper strengthening of administrative means is absolutely necessary. In the years to come, administrative means will still have an important part to play in the management of transportation by the government's communications and transport departments. However, we must ensure that administrative means are appropriately applied, as excesses will restrict the operation of economic mechanism. While applying administrative means, we should also make comprehensive use of other means. In the long term, we should make better use of economic means and bring into play the regulatory role of various economic levers.

## AGRICULTURE

**Review, Analysis of Agricultural Problems**  
40060578 Beijing ZHONGGUO NONGCUN JINGJI  
[CHINESE RURAL ECONOMY] in Chinese  
No 4, 21 Apr 89 pp 3-10

[Article by Liang Xiufeng 2733 4423 1496 of the Economic Research Institute of the State Planning Commission: "Reconsidering China's Agricultural Problems"]

[Text]I. China's Agricultural Development Has Been Tortuous

Generally speaking, China's agricultural development has been relatively fast since the founding of new China. During the 1949-87 period, the gross value of China's agricultural output increased fivefold, of which grain increased 2.6 fold. But the course of China's agricultural development has been tortuous. The crucial questions are: Is the change of production relations in line with the nature of agricultural productive forces? Are major agricultural policies helpful to agricultural development?

During the 1949-55 period, China carried out land reform, eliminated the feudal land system, and liberated rural productive forces; the primary form of cooperation based on voluntary participation and mutual benefit provided a relatively rational organization for agricultural production. Since carrying out the primary form of cooperation on the basis of land reform suited the level of productive forces and management at that time, the first "golden age" of China's agriculture occurred. During the 6-year period, the gross value of agricultural output increased 70.2 percent, averaging 9.3 percent a year. During this period, people's living standards improved markedly and society also remained stable and united.

During the 1956-78 period, under the guidance of leftist ideas and anxious for quick success, changes in production relations surpassed the level of rural productive forces. While still under the condition of manual labor and natural economy and before the food and cloth problem was resolved, China prematurely organized advanced agricultural cooperatives and people's communes and considered it as the one and only model for socialist agriculture. The unitary form of public ownership and the egalitarian system of distribution, plus covert policy of peasant exploitation, caused China's agriculture to stagnate and hover for over 20 years. China's per capita grain output in 1956 was 310 kg. In 1960, it dropped to 215 kg. In 1978, it reached 320 kg and resumed the level of production of 22 years ago.

During the 1979-84 period, China abolished the rural people's commune system which integrated government administration with commune management and implemented the production responsibility system based on household management. As a result, the broad masses of rural workers had decisionmaking power. Thanks to state aid to agriculture in many areas, production potential accumulated over the years was brought into play, resulting in the emergence of the second "golden age" of China's agriculture. During this 6-year period, the gross value of agricultural output increased 68.1 percent, per capita grain output reached 394 kg, and the food and cloth problem of China was basically solved.

During the 1985-88 period, due to various reasons, China's agricultural production began to fluctuate again, especially in the output of grain and cotton. In 1988 per capita grain output dropped to 360 kg and total cotton output was reduced by about one-fourth as compared to that of 1984. Major agricultural products were again in short supply.

Reviewing this period of history helps us gain a new understanding and make profound consideration of agricultural problems.

#### **New Situations and Problems Facing China's Agriculture**

Since the 3d Plenary Session of the 11th CPC Central Committee, profound changes have taken place in China's rural areas (from superstructure to economic basis).

Along with the achievements that have become the focus of world attention, many new situations and problems have appeared and need to be studied in depth to work out solutions.

#### **A. New Changes in the Rural Economy**

Since the founding of the PRC, three major changes have occurred in China's rural areas. The first one was land reform, the second one was the organization of agricultural cooperatives and rural people's communes, and the third one was the abolition of the people's commune system, which integrated government administration with commune management, and the implementation of the responsibility system based on household management. These three major changes actually began from the 3d Plenary Session of the 11th CPC Central Committee. Their main expressions are in the following aspects:

1. Agricultural production has been changed from three-level ownership based on brigades to the system of household management. It has changed from previous collective management based mainly on 6 million basic accounting units to household management based on 180 million peasant households. With regard to the ownership of capital goods, peasants' individual ownership has accounted for a fairly large proportion (about or over two-thirds of large and medium-sized farm machines are owned by peasants). This means that a drastic change has already occurred in the structure of agricultural ownership and organization in China.

2. The food and cloth problem of Chinese people has been basically resolved, but about 10 percent of peasants and herdsmen still do not have enough to eat and wear and a few have suffered declining living standards. According to the statistical data provided by the State Statistics Bureau, during the 1979-87 period, the average consumption level of peasants increased by 1 fold while that of non-agricultural residents increased only by 75 percent. The difference between the two was reduced from 1:2.9 to 1:2.53. The gap is closing up.

3. Agricultural commodity production has made relatively great progress, but the semi-natural agricultural economy has not been fundamentally changed. Statistics show that in the past 9 years the gross value of agricultural output increased 77 percent and the total amount of procurement of farm and sideline products increased by 1.14 fold (calculated on the basis of comparable prices); the commodity rate of farm and sideline products increased from 39.9 percent to 50.7 percent (all calculated according to current prices). The amount of social grain procurement increased from 50.73 million tons in 1978 to 120.92 million tons in 1987, and the ratio of such procurement to total grain output increased from 16.6 percent to 29.8 percent. These situations indicate

that the rural commodity economy has made fairly fast development, but there is still a fairly long historical process before it reaches the developed commodity economy.

4. The relatively unitary agricultural economy has been developed into a diversified economy of agriculture, industry, communications, construction, and commerce. Statistics show that of the gross value of rural social output in 1987, total agricultural output value accounted for 49.6 percent, total industrial output value accounted for as high as 34.8 percent, and construction, transportation, and commercial service accounted for 15.6 percent. This is a profound change in the industrial structure of China's rural areas. It is also a major expression of the foundation role of agriculture after the food and cloth problem is resolved. In 1987, rural areas had a total of 390 million workers, and 89.13 million of them engaged in nonagricultural activities (32.97 million in industry and 14.31 million in construction). This labor employment situation has generally reflected the tendency of comprehensive economic development in China's rural areas.

5. In some economically developed areas, the gap between industry and agriculture and between urban and rural areas has shown the tendency of gradually narrowing. In many economically backward areas, the rural economy basically still maintains the characteristics of relatively unitary agricultural production and semi-natural economy and has failed to show any obvious qualitative change.

#### **Main Reasons for Outstanding Achievements in China's Agriculture**

Since the 3d Plenary Session of the 11th CPC Central Committee, China's agricultural achievements have become the focus of world attention. How did we make such achievements? In the past few years, many articles, speeches, and reports attributed agricultural achievements to the reform of economic system. I think that concrete analyses of internal relations of agricultural economy, especially material relations, probably would be helpful to clearing up the nature of the issue.

A. China has abolished the rural people's commune system which integrated government administration with commune management and implemented different forms of ownership system under which major capital goods are owned by collectives and individual peasants (in fact, except for land which is contracted on a long-term basis, other major capital goods are owned mainly by individual peasants). Along with changes in the structure of ownership and the forms of management, the structure of peasant income has also undergone a major change. According to the information supplied by the departments concerned, 66.3 percent of peasants' net income came from collective income in 1978. The figure dropped to 9.2 percent in 1986. We know that under the current situation of rural productive forces, agricultural

products are obtained by relying to a large degree on the direct experience and manual labor consumption of agricultural workers. According to the information of the State Statistics Bureau, in 1985 material consumption accounted for only 31.1 percent of the gross value of China's agricultural output. A considerable part of such material consumption was provided by agricultural workers themselves. Under the condition that socialization level is still fairly low and that manual labor predominates, implementing this form of ownership and distribution is a better way to combine laborers with capital goods. This has effectively accelerated the development of rural productive forces.

Years of study have proved that the responsibility system based on household management (actually a form of agriculture with the nature of individual management) is an important factor, but not the only factor, in accelerating and organizing the rapid development of China's agriculture. This is because a good management system can function as a great accelerator and organizer only if the development strategy is scientific, the ownership structure suits the nature of productive forces, and principles and policies are correct.

B. The state has substantially raised the procurement prices of farm and sideline products. Statistics show that during the 1979-87 period, the general index of the procurement prices of farm and sideline products increased 98.8 percent. It increased 22.1 percent alone in 1979, the highest ever since the founding of the PRC, with the exception of the year 1951. Analysis shows that during the 1979-85 period, peasants' income increased 243 billion yuan due to the increase of the procurement prices of farm and sideline products. During the same period, peasants' expenditures increased 121 billion yuan due to the price increase of manufactured goods sold to rural areas. After balancing off each other, peasants still increased their income by 122 billion yuan.

The increase of the procurement price of farm and sideline products has increased peasants' income. This can, on the one hand, properly raise the living standards of peasants and arouse their production enthusiasm and, on the other hand, increase agricultural input and provide a material and technological foundation for insuring stable agricultural development and expanding reproduction.

C. China has adopted the general political principle of "recuperate and multiply." In order to eliminate the negative consequences of excessively high procurement in the past, accelerate the readjustment of rural industrial structure, and give an impetus to the comprehensive development of the rural economy, the state began in 1979 to import large amounts of grain (statistics show that during the 1979-81 period, the state imported a net of 72.6 billion jin of trade grain, equivalent to about 85 billion jin of natural grain). In the meantime, the grain procurement task was relatively stabilized, and all surplus grain produced in the past few years was allowed to



be retained in rural areas. This not only substantially increased the food grain of peasants (the average consumption of trade grain by peasants increased from 387 jin in 1978 to 440 jin in 1981) but also provided a material foundation for the development of a diversified economy. During the 1979-81 period, grain output increased 6.6 percent, cotton output increased 79.8 percent, oil-bearing crops increased 90 percent, and sugar crops increased 51.3 percent.

D. China has given necessary aids to agriculture such as funds. On the one hand, China has stabilized agricultural taxes and enabled the ratio of agricultural taxes to agricultural income and the ratio of all taxes to fall to the lowest level in history, thus increasing peasants' income accordingly. On the other hand, China has substantially increased low-interest agricultural loans. Loans for rural production brigades and teams increased from 19.2 billion yuan in 1978 to 31 billion yuan in 1984.

The change of production relations has liberated agricultural workers and made it possible to bring into play material and technological potential accumulated in the past 20-plus years. The substantial increase of the procurement price of farm products has aroused peasants' enthusiasm for production and increased the ability of agricultural reproduction. The stabilization of grain procurement and agricultural taxes (actually the reduction of grain procurement and agricultural taxes) and the implementation of the "rest and recuperate" principle have increased stamina for a steady growth of agricultural production. The combination of these three conditions gave rise to the second "golden age" of China's agriculture. The purpose of conducting the above analysis is not to simply review history but to try to draw helpful enlightenments and useful experiences from it.

#### New Problems Cropped up in China's Agriculture

A. New problems brought by the household responsibility system. Practice has proved that the current household management responsibility system can accelerate the development of productive forces on the one hand (this positive function was predominant during the initial period) and hinder the development of productive forces on the other (this began to show gradually in recent years). There are three major expressions: 1) The scale of operation is too small and fields are excessively scattered, which is not good for scientific farming and management. A sample survey shows that a peasant household occupies on the average of 9.7 fields of farmland which add up to only 9.4 mu. The land is so carved up and scattered that it is much worse than the early 1950's after the land reform was carried out. 2) Large and medium-sized farm machines are owned mainly by individual peasants. It is very irrational to operate such machinery on seriously divided and scattered fields. 3) It is not good for organizing public forces to carry out long-term large-scale farmland capital construction such as improving mountainous areas and harnessing rivers. Now it looks that overly centralized

and uniformed land is of course not good but overly scattered and divided land is not good either. It is better to combine the two methods.

B. Basic conditions for agricultural production have a tendency of continuous deterioration. China is a country which has relatively scarce land and water resources but an enormous demand for farm products, which is the main contradiction hindering China's economic development. What worries us more is that basic conditions for agricultural production are deteriorating continuously. First, the total amount and per capita occupation of land and water resources are both declining. The total portion of major land and water resources, such as cultivated land, wooded areas, forest coverage, the accumulation of trees, and the annual runoff of rivers and streams, are all decreasing. Meanwhile the nation's population is increasing continuously at a huge annual rate of more than 10 million people. This makes the shortage of land and water resources even more prominent. Second, the quality of land and water resources is also declining. Declining soil fertility of cultivated land, denudation of forests, erosion and rat infestation of grasslands, worsening soil erosion, drying fishing resources, and environmental pollution have occurred and are continuing to deteriorate in many areas. Third, peasants are not enthusiastic about input in agricultural production, especially capital construction input. Their management style is one of "plunderer." State and local financial expenditures on agricultural input have also been reduced markedly.

C. The shortage problem of major farm products is relatively prominent. Since the false appearance of "relative surplus" in the supply of major farm products in the winter of 1984 and the spring of 1985, the tense supply and demand situation has gradually worsened. It has become a major factor hindering economic development and the stability of prices and society. The current level of agricultural production can neither support excessively fast industrial development and an excessively large scale fixed-asset investment nor satisfy people's new demand for farm products (reflected mainly on meat, milk, sugar, and vegetable supply) after the improvement of living standards. Analysis of related data shows that two-thirds of current market price increases are caused by the price increases of farm products. "Vegetable baskets" have become a prominent problem in the life of urban residents.

D. Per capita grain output is declining in China. In 1984 China's per capita grain output reached 396 kg, an all time high. Since then, it has been declining. The preliminary estimate for 1988 was only 360 kg. But the amount of grain needed for the production of meat, eggs, and milk has been increasing every year. Now that the people expect more from food consumption and the level of agricultural production is comparatively lower, this contradiction is likely to get worse. The current grain problem is not food, but fodder and grain needed for industrial development. The fact that these demands

may increase faster than grain production is exactly the crux of the grain problem. The current economic life shows that grain production still is the center of agricultural production because when grain price rises 1 jiao per jin, pork will rise 5 to 6 jiao per jin. The rise of grain prices also causes the prices of other consumer goods to rise.

We must also realize that it is very difficult to continue to increase grain production. To make per capita grain output reach or slightly exceed 800 jin, we need to increase grain output by 240 billion jin during the 12-year period between 1989 and 2000 (an average annual increase of 20 billion jin). Even if we succeeded in doing this, our grain situation would be roughly the same as that of 1984. The question facing us is: what kind of strategy, principle, policy, system, and measure should we adopt to insure the fulfillment of the goal of increasing grain output by more than 200 billion jin? This requires enormous efforts.

## II. Reconsider China's Agricultural Problem

China's agricultural problem is by no means a problem of agriculture itself. It is an extremely important component of the national economy as a whole. Therefore, when we discuss the achievements, situations, problems, and contradictions of agricultural development, we should take a new look at them by putting them in the development of the national economy as a whole and in the long course of development of history.

Since the 3d Plenary Session of the 11th CPC Central Committee, obvious and profound changes have taken place in China's social and economic life. Their concentrated expression is that we are changing from a survival-type to a comfortably well-off economic life. Foreign practice tells us that after many developing countries solved the food and cloth problem, the demands of their people's life suddenly changed, creating many new contradictions for the development of the national economy, especially agricultural development. Now China's situation looks more or less the same. Foreign practice also tells us that when a traditional agricultural society evolves into a modern industrial society, drastic change often occurs in the structure of social economy. Large amounts of agricultural labor are transferred from agriculture to industry, from rural to urban areas, and from the basis of manual labor to mechanized production. This often causes drastic changes in the relations

between industry and agriculture and between urban and rural areas. As the semi-natural economy develops toward the commodity economy, the relation between commodity and currency will expand and the market system will grow. This is bound to disrupt the original social and economic order and the concept of value. Comparative economic interests (based on comparative labor productivity) become the basic motive for people to be engaged in economic activities. Since there is a huge gap between industrial and agricultural labor productivity, comparative economic interests are very powerful in China. That many peasants rather do industrial work than farming is a result achieved by comparative economic interests. Foreign practice also tells us that most developing countries are faced with the historical mission of changing the backward situation of economy and technology and carrying out industrialization. In order to accomplish within a fairly short period of history what took several hundred years for developed capitalist countries to accomplish, they often adopt relatively radical methods to reorganize their country's social and economic structures, causing contradictions to become more acute and complex. China now faces change from an agricultural society to an industrial society as well as change from a traditional socialist model to a socialist model with Chinese characteristics. Because of this, problems confronting Chinese society, especially rural areas, are even more complicated.

**The above analysis shows that China's current agricultural problems are not accidents. They are caused by various reasons.**

A. Historical conditions for the rise of agricultural problems. China's agricultural problems arose in the course of accelerated industrialization. Statistics show that during the 1985-87 period, China's industry increased 59.6 percent (an average annual increase of 16.9 percent) whereas agriculture increased only 11.3 percent (an average annual increase of 3.6 percent). Of which, grain production declined 0.6 percent. This could not but cause an imbalance between industrial and agricultural relations and even between different sectors of the national economy. China's agricultural problems occurred when China was transferring from a survival type of life to a comfortably well-off life, the consumption structure of the people was rapidly changing, and social pressures on agriculture, especially grain, were enormous. This point can be explained by the following statistics:

**Consumption of Agricultural Products (1979, 1987)**

Per Capita Consumption (Kilograms)	Gross value of Agricultural Output	Grain Output	Edible Oil	Pork	Eggs	Sugar
Per Capita 1979	...	...	1.6	7.7	2.0	3.4
1987	...	...	5.4	14.5	5.6	6.7
1987/1978%	157.6	120.0	337.5	188.3	280.0	197.1

B. The essence of China's agricultural problem is to what degree can the current level of agricultural production withstand industrial development, national construction scale, and people's consumption level. In the final analysis, it is a question of how much weight can the foundation of agriculture withstand.

The concentrated manifestations of agricultural problems are contradiction between relatively centralized industry and absolutely scattered agriculture, between rapidly developing industry and slowly developing (stagnant and hovering) agriculture, and between the industry of modernized production and the agriculture of manual labor. In other words, agricultural problem is the contradiction occurred in the course of accelerated industrialization and urbanization between industry and other sectors of the national economy and the backward production of agricultural commodities.

C. China's economic readjustment should be based on agriculture. Since the founding of the PRC, China's national economy has undergone four large-scale readjustments, which were all carried out on the basis of consolidating and strengthening the foundation of agriculture. The first readjustment was carried out during the recovery of the national economy. It was carried out after land reform liberated the productive forces of rural areas and agricultural production was resumed and developed. The readjustment successfully fulfilled the task of recovering the national economy. The second readjustment was carried out after 3 years of "Great Leap Forward" seriously sabotaged and destroyed the productive forces of rural areas. It was centered on readjusting rural production relations and restoring agricultural production. On this basis, China readjusted its national economy in the order of agriculture, light industry, and heavy industry. The third readjustment was carried out after the 3d Plenary Session of the 11th CPC Central Committee. It was centered on rural reform (including change of production relations, readjustment of development strategy, implementation of major principles and policies, and reform of rural management system) and the implementation of the "rest and recuperate" general agricultural principle. On this basis, China readjusted major national economic relations and ratios, bringing about the second "golden age" of China's agriculture. The fourth readjustment was carried out after the Third Plenary Session of the 13th CPC Central Committee. It was to stabilize prices, stabilize economy, and alleviate economic imbalances caused by total social supply outstripped by total demand. But a deeper reason for the readjustment still lies in the question of how much the agricultural foundation can withstand. In this sense, this national economic readjustment should still be based on agriculture.

Although these issues are not new discoveries in political and agricultural economics, they are new occurrences in the new historical period. Therefore, studying them again to draw helpful experiences, lessons, and inspirations from them is extremely necessary.

#### Basic Ways To Alleviate China's Agricultural Contradictions

We must realize that before industrialization, agricultural problem was always the fundamental problem of Chinese society and economy. It affects to a fairly large degree China's economic and social stability and has direct influence on the stability of rural economy and 800 million peasants. At the same time, we must also realize that the shortage of farm products (absolute and relative shortages) will be a long-term economic phenomenon. Our economic and agricultural workers must be mentally prepared for "a protracted war" and make relentless efforts to alleviate and then resolve this contradiction.

A. We should further establish, consolidate, and perfect the economic theory based on agriculture. Everybody agrees on this theory in principle, but the question is how to correctly understand and conscientiously implement this theory in the course of accelerated industrialization. Recently I read an article, "Reconsider Agriculture as the Foundation of the National Economy," which has indepth discussions on this issue. The article states that agriculture is the foundation of the national economy and reflects the objective law of economic development, which must be followed at all times (regardless of bumper harvests or lean years in agricultural production). If it is violated, economic development will suffer setbacks. The article also states that we should fully understand the arduousness and complexity of agricultural development. We should be neither pessimistic nor blindly optimistic (we often came to grief due to blind optimism like in 1958 and 1985). The article also thinks that to change the backwardness of agricultural production and bring about the stable and coordinated development of the national economy, the most important thing is to correctly handle the relations between industry and agriculture and coordinate industrial and agricultural developments.

Foreign practice tells us that after the food and cloth problem is resolved and in the course of industrialization, national economic development puts forth additional, higher, and more complicated demands on agriculture, and the responsibility of agriculture is not lighter but heavier. When it comes to a large country with a backward economy and over 1 billion people, the problem becomes even more complex and harder to resolve. Therefore, it is extremely necessary for us to further establish, consolidate, and perfect the economic theory based on agriculture under new historical conditions and plan our activities under the guidance of this economic theory. Only by so doing can we accomplish something in economic development; otherwise, we will trip and fall or take the long way around.

B. We must relentlessly establish better basic conditions for agricultural production. The stagnation and fluctuation of China's agricultural development is caused by various reasons, including ones concerning production

relations, managerial methods, and principles and policies. But in the final analysis, it is related to the situation of productive forces. Judged from the present and into the future, the most basic issue still is deepening reform and establishing better basic conditions for agricultural production. In other words, we should protect well five basic resources—land, forest, prairie (grassland), water, and water conservancy. They are the sources of recuperation and multiplication for the Chinese people; they are also basic prerequisites for agricultural production. We must look at this issue from the plane of long-term development strategy and make relentless efforts to resolve this issue.

The first basic solution is to adopt effective measures to stop "plunder-style" management and gradually eliminate the "short-term behavior" of peasants (and of the state, localities, and collectives). For this, we need to maintain the relative stability of basic rural policies. The second basic solution is to adopt the general "rest and recuperate" principle for water and land resources, properly reduce the burden of water and land resources, and allow limited water and land resources to "catch their breath." For this we should restrict certain excessive, undue demands. The third solution is to establish and perfect the management system of water and land resources in China and conscientiously strengthen the protection and management of water and land resources.

C. We should establish and perfect an aid-agriculture national economic system. We should switch the development of the national economy to a track based on agriculture and establish and perfect an economic system under which all trades and professions support agriculture.

We should establish and perfect an aid-agriculture financial system. In addition to the state which should increase financial aid to agriculture, a large percentage of local revenue should also be used to support agriculture (which reached or exceeded 60 percent in the 1960's and the 1970's.)

We should establish and perfect an aid-agriculture industrial system, try to satisfy the demand for major capital goods needed for agricultural production (such as chemical fertilizer, pesticide, plastic covers, farm machinery, and diesel), and adopt the low-price policy.

We should establish and perfect an aid-agriculture technological advance system and rely on scientific and technological advances to accelerate the development of agricultural production. Technical services which were proven to be effective in the past and are popular among peasants should be resumed and strengthened. New scientific and technological projects to solve major agricultural problems should be completed as soon as possible.

We should establish and perfect an aid-agriculture service system, do a good job in the service before, during, and after agricultural production, and promote the socialization, specialization, and commercialization of agricultural production.

We should establish and perfect the aid-agriculture system of township enterprises, adopt the principle of using in agriculture what is taken from agriculture, and combine the development of township enterprises and agriculture.

To perfect the aid-agriculture national economic system, we must first arouse peasants' enthusiasm for agricultural development and rely mainly on the increase of peasant input. On this basis we should do a good job in combining the increased input of the state, localities, township enterprises, and peasants.

D. We should strengthen local planning, especially local agricultural planning. We need a long-term overall arrangement to switch national economic development to a track based on agriculture and to establish and perfect the aid-agriculture national economic system. This is one of the major tasks for national economic planning. For this, we should strengthen both central and local planning. Judged from the practice of the development of reform, local planning has an extremely important position and function in the management of the national economy.

Judged from long-term economic and social development pattern, the basic way to develop China's national economy is to start from rural areas dominated by agriculture and manual labor and urban areas dominated by industry and mechanized production to gradually realize industrialization and then modernization throughout the urban and rural areas of China. This is an historical task facing China. The basis for fulfilling this task lies in the development of the rural economy and the improvement of the production level of rural areas. This is the first major task to be considered in economic planning.

Judged from the viewpoint of planning and arrangement, whatever we plan or do must proceed from the basic national condition of 1 billion people and 800 million peasants. We should pay attention to arranging well the production, construction, and livelihood of 800 million peasants and enable rural residents who account for 80 percent of China's population to become more united and stable. This is the second major task to be considered in economic planning.

In regard to the readjustment of China's industrial structure, the pattern of demand includes taking the primary industry (agriculture) as the basis and the secondary industry (industry) as the center while developing urban and rural industries in a planned manner; developing the tertiary industry accordingly to render service to the primary and secondary industries on the

basis of the development of the primary and secondary industries. Historical practice has proved that without the development of the rural economy and the readjustment of industrial structure, it would be impossible to rationally readjust national industrial structure. Historical practice has also proved that without long-term stable development of agricultural production, especially long-term stable growth of grain, it would be impossible to have long-term stable development of the national economy. This is the third major task to be considered in economic planning.

Judging from the planning and management system, when we have a relatively complete county-level as well as a relatively complete urban planning and management system, we will have a solid foundation for our national planning and management system. It looks that the reform of county-level and urban planning systems should also be considered as the basis for deepening the reform of and gradually improving China's national

planning system and for strengthening and improving macroeconomic management. This is the fourth major task to be considered in economic planning.

**Yunnan Grain Purchases, Sales**

*40060682c Kunming YUNNAN RIBAO in Chinese  
2 Jun 89 p 1*

[Summary] By the end of March, 1988 grain year, Yunnan Province had purchased 1.14 billion kilograms of grain and edible oil at negotiated prices, and sold 785 million kilograms of grain and edible oil at negotiated prices.

**Yunnan Sugar Transfers**

*40060682b Kunming YUNNAN RIBAO in Chinese  
15 Jun 89 p 1*

[Summary] By the end of May, Yunnan Province had transported 145,500 tons of sugar to Sichuan, Guizhou, Shaanxi, Qinghai, Tibet, Hubei and Hunan.



### Model Sought for National Defense Modernization

40050536a Beijing XIANDAIHUA

[MODERNIZATION] in Chinese No 4, Apr 89 pp 30-31

[Article by Liu Yichang 0491 5030 2490: "Choosing a Model for the Modernization of China's National Defense"]

[Text] What I mean by a model for national defense modernization is something to encompass the complex problems involved with national defense construction, as well as the fundamental characteristics of that national defense. Items to be covered include: 1) ways to arrange and combine essential elements of national defense entities in an orderly manner; 2) national defense growth system structures; 3) national defense growth regulation systems; 4) national defense growth campaign patterns and mechanisms; and 5) organic links between national defense growth and the growth of the national economy and society. In choosing a model for the modernization of China's national defense, we must comply with the real situation in China, for only then can we spur on efforts toward national defense modernization construction.

#### I. Three Models Worth Discussion

A. "The model of catching up and surpassing". Some comrades feel that China is a major nation, with an armed force of more than 3 million, but national defense expenditures are only 20 billion RMB [renminbi], the equivalent of \$6-7 billion, while that for the United States is \$300 billion annually, for the Soviet Union is \$160 billion, and for Japan is \$30 billion. If China's national defense construction is to proceed along current lines, not only will the national defense not be modernized by the year 2000, but there will be an even greater gap between us and the United States and the USSR. Internationally, China should occupy an important position. China's national defense modernization should be of a high standard. Therefore, when formulating the goals for modernization of China's national defense, we should aim at catching up with and surpassing the military powers of the world, and we cannot allow the gap between us to become too great. Some people feel that the USSR and the United States are important future threats and that national defense construction goals should consider contention with them. It is my belief that, because the economic and material bases differ, the technology situations differ, the strategic goals differ, and national defense policies differ, we are not currently qualified to be compared with others, nor is it necessary.

B. The "propagational model for national defense." Some comrades feel that a model for national defense growth having Chinese characteristics should build a "propagational national defense." The theoretical basis for this view includes: 1) Developing military high technology that can be transferred to civilian use, the

results of which would be significant and would stimulate economic prosperity, as for example did the "Apollo moon landing" plan. 2) The national defense science and technology industries would not only make military products, but civilian products, too, which would compete in both international and domestic markets, and would earn foreign currency for the state. 3) The military could export labor. Theoretically, however, the so-called "propagational model for national defense" cannot stand alone. When viewed from the experiences of both China and other countries through history, this has never happened, nor from the real situation in China can it succeed in doing so. There are several reasons for this. First, national defense entities do not operate in accordance with economic mechanisms. Second, the S&T industries involved with national defense can only be partially included within national economic cycles. Third, what the national defense industry manufactures is primarily national defense power and a military combat force, which is also an evaluation of the basic standards for national defense and military unit construction. To ignore this point would be to get off course.

C. The "armed forces self-development model." There are still other comrades who feel that the armed forces must now develop on their own, and that they must therefore earn money. If they were to self-develop without making money, then how could they grow on the small amount of military funding available to them? In the current situation, what is the basic function of the military? I believe that the armed forces is the basic power of national sovereignty and that historically it has had two important functions: one, to ensure national security and, two, to actively participate in economic construction and in the advancement of social growth. However, the most fundamental and most important function is to safeguard national construction. During periods of peaceful activity, armed forces construction should be in compliance with the overall situation and it should enhance the function of self-development. But it is not possible to set up a "self-development model," for the armed forces must always proceed from the idea of improving the fighting power of military units.

It must, therefore, be pointed out that if we are going to look into a model for the growth of China's national defense modernization, we must truly come to grips with the national situation in China and with the reality of national defense construction, and we must pay close attention to key links in that area.

#### II. Ways To Deal With the Gaps in China's National Power and With the Modernization of the National Defense

Choosing a model for national defense modernization involves several major questions, for example, domestic and foreign political environment, national S&T and economic bases, principles and policies for national

defense construction, and military strategic goals. But no matter what kind of model is chosen, economic conditions have a determinative significance.

A. Comparing gross value of economic strengths. By comparing the most fundamental economic indicators, gross value of national production and per capita gross value, we are behind in both areas.

B. Comparing industrial structures. The United States, Japan, the USSR, and the countries of Western Europe have long been industrialized, and greater proportions are new technology and high-technology industries. China's agricultural population is still in the majority and have yet to see industrial modernization. The proportion of high-technology industries is quite low. This is a direct limitation on the renewal and upgrading of weapons and armaments.

C. Comparing cultural and technology qualities of all the people. The Chinese agricultural population is 80 percent, and one-fourth of the entire population is illiterate or semiliterate. Productivity of Chinese industrial sectors is about one-fifth that of Japan and the United States, and about one-third that of the USSR. This not only directly restricts the real economic power of national defense, but also directly affects the quality of officers and enlisted personnel.

Therefore, the gap between China and the major economic and military powers of the world is a long-term, comprehensive gap in real economic power. This is one of the fundamental considerations in choosing a model for the modernization of China's national defense.

The "all-points resistance to economic growth" that is currently underway throughout the world might be called an "all-points economic war." This is a comprehensive test of strength of the pace and quality of technological and economic growth that has been going on for centuries. The United States has been engaged in a "competitive strategy" centered on technology, the USSR has been engaged in a "catch up and surpass strategy," the goal of which has been full-scale intensification, Japan has been engaged in a strategy of "technology trade" characterized by an export-oriented technology economy, and Western Europe has been engaged in a "united strengthening strategy" that combines the military and civilian. All of these strategies seek a leadership position in the strategic international structure of the 21st century. Whether it be the United States and Japan or the USSR and India, all are worried about the growth of real economic power in China during the 21st century and that it might attain a leading position in the world. China has already shifted the focus of its major national strategy to developing productivity, which is exactly the fundamental outlet for efforts at national defense modernization construction.

### III. Regarding the Selection of a Model for the Modernization of China's National Defense

The primary considerations for choosing a model for the modernization of China's national defense are: first, China is a peace-loving socialist country that neither seeks world hegemony nor will initiate a war of aggression; second, China is in the preliminary stages of socialism where the level in the growth of productivity is still quite low, especially regarding the proportion of high-technology industries, so the pace of renewal and upgrading of weapons and armaments cannot be faster; third, the primary tasks of the nation are to develop productivity and to concentrate strength for undertaking economic reconstruction, for which reasons national defense construction efforts have been placed in a position subservient to the central tasks and overall situation, so the pace of these efforts cannot be faster; fourth, there is a relatively stable peaceful environment internationally and domestically, which could hold true for a relatively long or even very long period; and fifth, contemporary warfare is full-scale resistance involving comprehensive national power, and the transformation from peace to war will be realized within a very short time. For these reasons, national defense construction in the initial stage of socialism should be contained within the model used for growth of the national economy and society. For this, the basic mode would be unification of military and civilian growth, with the primary goals being compliance with the overall situation regarding economic reconstruction and strengthening the national defense potential and fighting power of reserve forces to improve the model of "a strong military within a rich country" that is centered on improving comprehensive and overall results. Regarding particular items, there should be the following eight characteristics:

First, national defense science and technology would be included within S&T development throughout the country and, under the principle of integration of military with civilian where the civilian is paramount, we would build a national defense science and technology system of a significantly advanced international level.

Second, national defense industries would be included in the national economic growth, bringing an end to the era in which national defense industries formed their own independent system, gradually establishing a national defense economic structure with particular Chinese characteristics, and strengthening combat and economic potential.

Third, military transportation would be included in the growth of national transportation, gradually establishing medium-sized to large cities as hubs in a transportation network system with multiple conveyance tools, but keyed on rail and highways.

Fourth, reserve forces growth would be included as part of a powerful reserve forces capacity base, where a special forces policy would be implemented, where a

system would be in effect consolidating the three parts that are active duty, reserves, and militia, and where the tendency toward large numbers of troops deficient in quality would be halted.

Fifth, national defense education would be included among education for all people at every level and in all subjects, progressively establishing a "five parts in one whole" education system for government, society, schools, military units, and the home. This would make the most of national defense education as a base for national defense efforts.

Sixth, civil air defense and battlefield construction would be included in the development and governance of national territory, and the principle of peacetime-war integration would be carried out to use peacetime efforts during war, and to combine security and the potential for survival.

Seventh, national defense resources and reserves would be included in the development and utilization of state resources, the development and storage of reserves would be integrated, and there would be "circulating" reserves, planned development, rational stocking, and comprehensive utilization.

Eighth, appropriate and complementary to constructive efforts within the state legal system, a military legal system with Chinese characteristics would be further perfected, implementing the legalization of building efforts of the national defense and military units, among other things.

These development models with Chinese characteristics can be distinguished from those of the Soviet Union and West European countries, are different from such Western countries as represented by the United States, and are also different from the development models in China before the 3d Plenary Session of the 11th CPC Central Committee. They are able to fully implement the most general rules of national defense construction efforts.

#### **IV. Consider the Hastening and Intensifying of Military Restructuring To Be the Central Element of Establishing the New Model**

From the point of view of national strategy, quickening and intensifying the restructuring of the economic and political systems is the main theme in the near term. From the point of view of national defense construction efforts and military unit construction, in the next phase we will be restructuring overall responsibility. This restructuring must be appropriate and complementary to restructuring of the political and economic systems and must cover all bases.

What is meant by "restructuring"? Philosophically speaking, restructuring is tearing down and building up; and it is developing what is useful and discarding what is not. From the point of view of structures, restructuring is

an adjustment of organization and relations, where relations in all aspects are made rational. From the perspective of historical development, restructuring is also a process. The restructuring of China's military, as far as guiding ideology is concerned, must center on the modernization of national defense and military units, must be guided by the theory of the initial stages of socialism, and must be based on the strategic transformation of the guiding ideology behind national defense and military unit construction. The principles of restructuring must maintain stable units and must focus attention throughout on improving combat strength, they must maintain the characteristics of China and our military, and they must maintain overall planning and system integrity. In the restructuring of goals and the selection of models, we must accommodate ourselves to the goals of national defense modernization construction and must work to establish a uniform model that is full of vitality and that includes national defense construction efforts in national economic and social growth. Among the elements of restructuring, there is both full-scale restructuring and also specific emphasis, which serve to control this important opportunity of system restructuring. Steps taken during the restructuring must be bravely enthusiastic and prompt, but they must also be stable and dependable. At present, the keys to restructuring are:

First, we must fully recognize ideologically the major significance of including national defense construction efforts within economic and social growth. To establish this kind of model is a necessary means by which to realize a rich country and strong military, and it is also the fundamental feature in constructing national defense modernization with Chinese characteristics. This will aid compliance with the overall situation regarding the building up of the national economy and social growth, and will enable China to quickly traverse the key course that is the initial stage of socialism and to "graduate from the Third World"; it will also help in fundamentally strengthening national defense potential, especially in fundamentally improving the situation regarding deficiencies in China's weapons and armaments; and it will aid in the modernization of a Chinese national defense and with modernization efforts to bring our military to an even higher level.

Second, on a system level, we must adjust and reorder relations in three aspects. One, the relations between national defense construction efforts and the growth of the national economy and society; two, relations among internal sectors of the national defense construction efforts; and three, relations within the military unit construction. Since the 3d Plenary Session of the 11th CPC Central Committee, China has taken steps to reorder relations between national defense construction efforts and the growth of the national economy and society. Consequently, relations in all aspects within the national defense construction efforts and within the military unit construction must be further reordered through prompt and intense restructuring.

Third, we must place improvement in comprehensive and overall results at the forefront of our efforts. There are three levels to that concept: 1) National defense results, that is, a synthesis of national defense strengths and unit combat strengths, which is our basic standpoint; 2) Social results, to advance social growth; and 3) Economic results. National defense construction efforts are not in a closed, independent system, but rather are organically combined with all areas and aspects of growth in the national economy and society. On the one hand, national defense construction efforts must rely on economic and social development; on the other hand, if national defense construction efforts are to proceed along the lines of absorbing the military within the civilian sector, it will be necessary for them to play a stimulating role in national economic construction and in social growth. This means that national defense construction efforts and work on military units must certainly consider as paramount improvement in comprehensive and overall results. Naturally, we must clarify priorities.

Choosing a model for the modernization of China's national defense concerns major principle and policy questions that are comprehensive, long term, and fundamental to China's national defense construction efforts. At the same time, they are also characterized by continuity and proper order. Consequently, as long as we proceed with China's national situation in mind and seek truth from reality, then we will be certain to choose a model of development that is appropriate to China's national situation and that also has Chinese characteristics, and we will therefore certainly be able to hasten the process of modernizing our national defense.

**Mainland Communists Form 'Rapid-Strike' Units**  
40050554 Taipei CHUNGKUNG YENCHIU  
[STUDIES ON CHINESE COMMUNISM] in Chinese  
Vol 23 No 4, 15 Apr 89 pp 111-118

[Article by Ch'en Ming-chih 7115 2494 4249: "Recent Situation in Chinese Communists' Organization and Training of 'Rapid Strike' Units"]

#### [Text]I. Foreword

When Zhao Ziyang, first vice chairman of the the Chinese Communists' "Central Military Commission," put forward the question of "establishing and adjusting military strategy in the new period" in May of last year [1988] at a high-level meeting in Beijing, he pointed out that stress must be put on dealing with the limited wars and military conflicts that could occur and on forming "fist" units. From what this man Zhao said, it is obvious that the Chinese Communists' military strategy is switching from Mao Zedong's "people's war," in which "all the people are soldiers," to methods of dealing with regional conflicts, and is beginning to develop "fist" units to wage limited wars.

One month later, at the end of June 1988, the Chinese Communists announced to the world through ZHONG-GUO RIBAO that their armed forces were developing a rapid-deployment military force composed of "fist" units in order to deal with regional conflicts and to wage limited wars. In recent years the Marine Corps of the Chinese Communists' Navy and the Airborne Forces of their Air Force have undergone many new kinds of sea landing and air landing training, and at the same time have developed fast ships and aircraft. The changes in the Chinese Communists' military strategic thinking and operational concepts have thus increased the threat of war in adjacent areas of Asia and have drawn the attention of observers in various countries. Materials relevant to the "rapid strike" units organized and trained by the Chinese Communists have been brought together here and analyzed for reference.

#### II. Main Intention

After the Chinese Communists usurped political power, their doctrine of war was established on the foundation of Mao Zedong's idea of "fighting an early, big, nuclear war" to deal with a large-scale total war that could occur. Since Deng Xiaoping took power in 1978, thinking that the international situation has gradually relaxed and that the probability of large-scale military conflicts has been reduced, he has changed the strategic nature of armed forces building and has made the strategic goal one of "winning small wars and containing medium-sized wars." At the same time, in the past several years there have been sharp changes in the Chinese Communists' internal and external circumstances. The military conflicts on the border with Vietnam and in the South China Sea area continue; the border disputes with Soviet Russia and India are still outstanding. On the mainland, the unrest of the student democracy movement and demonstrations by minority nationalities occur frequently, coupled with the lowering, year by year, of the budgetary proportion of "national defense expenditure." To deal properly with these internal and external variables, under the premise of appropriately using their limited military expenditures, the Chinese Communists are studying the operational experiences of Britain's Special Rapid Reaction Force in the Falkland Islands war between Britain and Argentina. They are organizing and training "rapid-strike" units to solve the problem of dealing with the limited wars that could occur in the future, including border conflicts, contentions over islands, and suppression of incidents opposing tyranny.

#### A. Dealing With Border Conflicts

The Chinese Communists think that in the period before the year 2000 AD, considering the international situation in which America and the Soviet Union stand in confrontation and nuclear stalemate, it is quite unlikely that there will be a war of large-scale invasion by a foreign army of the Chinese mainland, but that America and the Soviet Union, based on the needs of their contention and rivalry in the Asian-Pacific region, could



use military forces or proxies deployed in the areas on China's periphery to carry out, directly or indirectly, limited invasions. At the same time, there exist, to different degrees, historical disputes with countries adjacent to the Chinese mainland borders, and some hostile countries could make use of these disputes to provoke clashes and incidents. Therefore, the Chinese Communists think that, in peacetime, besides needing a number of units able to deal with conventional war, they also must have a force that is able to carry out rapid reaction operations in cooperation with main-force units in order to improve the capability to handle limited wars of a sudden, short-term, and high-tech nature, particularly armed conflicts on the border.

#### B. Contention for Islands

The Chinese Communists think that the problem of China's territorial reunification is still unsolved; some islands and reefs in the Spratly Islands are still occupied by other countries, including 10 by Vietnam, 6 by the Philippines, and 1 by Malaysia, and that this situation worsens day by day. In addition, there is the importance of defending the Chinese mainland's coastline, which is more than 1,800 kilometers long and along which are a little over 6,000 islands. The Communist Army is reorganizing and outfitting the Navy's Marine Corps to undertake the future mission of island-type rapid-strike operations.

#### C. Suppression of Incidents Opposing Tyranny

Over the past several years, on the Chinese mainland student unrest has occurred frequently, the Tibet independence movement has surged forward, and conflicts in Xinjiang between the Han and Hui nationalities have occurred constantly. Therefore, the Chinese Communists look to "special battalions," the "fist battalion" of the airborne forces, and the recently established "armed police special units" to jointly suppress the fairly large-scale and sudden anticommunist incidents opposing tyranny that could occur in the future.

#### D. Appropriate Use of Limited Military Expenditure

After the Chinese Communists made their so-called strategic change in guiding ideology for armed forces building, the focus of construction was put on the economy and the proportion of the "national defense" budget in the gross national product fell year by year. Under the restraint of limited military expenditures, the communist Army studied the practice of "special economic zones" and "ten thousand-yuan households" in building the economy, and concentrated fairly advanced equipment and funds on organizing and training some crack units, specifically, "rapid-strike" units. These "fist units," which in the communist Army "get rich first," are praised as being the most appropriate use of military expenditures. Not only can they play a forerunner, exemplary, and fermentation role for the building of other units, at the same time they can have three

substantial effects on the Chinese Communists' security: first, they are an intimidating force that "can subdue others without fighting"; second, they are the backbone force for fighting limited wars; and third, they act as a reserve in war.

### III. Missions, Organization, and Equipment

Based on their analysis of the current international situation, the Chinese Communists have concluded that, without exception, the limited wars of the future will be border clashes (or sudden incidents), contentions for islands and reefs, and relatively independent sea and air operations. Therefore, beginning in 1984 the Chinese Communist Army has, in succession, separately established in some "group armies" in the Lanzhou, Jinan, Nanjing, and Guangzhou Military Regions special battalions and rapid-action battalions to deal with border clashes or sudden incidents. On 5 May 1980 the Navy reorganized in the South Sea Fleet the Navy's 1st Marine Brigade for fighting battles for islands and reefs. In June 1988 the airborne forces of the Air Force set up a "fist battalion" to deal with limited military conflicts. At the same time, preparations are underway to have the Navy's surface ship units and the Air Force's air units organize and train rapid-deployment forces. The operational missions, organization, and equipment of the rapid-strike units organized and trained by the Chinese Communists are as follows:

#### A. The Army's "Special Battalions"

##### 1. Operational Missions

- a. Attack enemy military command organizations and communication hubs.
- b. Attack and destroy the enemy's military supply system.
- c. Attack and destroy the enemy's vital military communication lines, ambush the marching enemy, and delay the enemy's military actions.
- d. Harass and exhaust the assembled enemy.
- e. Carry out armed reconnaissance at the enemy's rear to provide the leadership organizations with timely, reliable intelligence.
- f. Carry out campaign and tactical parachute (aircraft) landings and cooperate with the main force's operations.
- g. Slip inside the enemy force and capture or kill its engineers and technicians, raid its specialized support fendi, and strike terror in the enemy and cripple his technical support capability.
- h. Guide the operational actions of one's own side's long-range artillery and aviation corps.



## 2. Organization and Equipment

a. The "rapid-strike" units formed by the Chinese Communist Army are separately deployed in some military regions. Their names are not identical. In the Lanzhou Military Region there are three "special battalions" and one "rapid-action battalion," which were established in 1984 and 1986. In the Jinan Military Region there is one "special battalion," which was established in March 1984. In the Nanjing Military Region there are three "special battalions," which were established in 1984 and 1986; and in the Guangzhou Military Region there is one "special infantry experimental company," which was established in 1985.

b. A battalion-level special rapid-strike unit embodies the principle of "small but complete, small but crack," and its organization is:

(1) The infantry squad is the small group. To it is added a 40-mm rocket launcher, and it is equipped with light weapons.

(2) The infantry platoon is the fendui, and the infantry company is the unit. Additionally, there is one special platoon (composed of a 60-mm mortar squad, a flamethrower squad, and an engineer squad. There is no mess squad; each small group and fendui is responsible for its own mess support.

(3) The battalion has one light artillery unit, one technical reconnaissance squad, and one chemical defense squad. It does not have odd-job personnel, but to it are added a certain number of interpreters.

(4) Under ordinary circumstances three small groups make one fendui, four fendui make one unit, and four units make one battalion. This organization can be made flexible in line with the mission.

c. The equipment includes the following weapons: pistol, rifle, submachinegun, light machinegun, heavy machinegun, 40-mm rocket launcher, 82-mm recoilless gun, 60-mm gun, and flamethrower. There is also equipment for reconnaissance, communications, camouflage, sabotage, scaling, and demolition.

### B. The Navy's 1st Marine Brigade

#### 1. Operational Missions

a. Either independently or in cooperation with the Army, to be the advance unit in making a landing, seizing and consolidating the landing point and landing area, and ensuring the landing of the follow-up echelon.

b. Seize and hold forward bases for the Navy.

c. Do the relevant land fighting in a naval campaign.

d. Coastal defense.

## 2. Organization and Equipment

a. At present only one brigade of the marine corps of the communist army's Navy has been discovered. Under the command of the East China Sea Fleet, it is stationed at Shenjiang. It is composed of marine infantry, artillery, armored, engineer, chemical defense, signal, missile, airborne, and reconnaissance troops. In it are a marine battalion, armored battalion, artillery battalion, signal battalion, amphibious tank battalion, and amphibious reconnaissance fendui. Its strength is about 5,000 men.

b. The weapons and equipment of this unit include mainly various types of infantry antitank weapons, amphibious tanks, amphibious armored transport vehicles, helicopters, antitank missiles, many calibers of self-propelled guns, landing craft, submarines, hovercraft, amphibious training grounds, heliports, tank and armored transport vehicle parks, and command teaching towers.

### C. The "Fist Battalion" of the Air Force's Airborne Forces

#### 1. Operational Missions

a. Seize and hold important targets or beachheads in the enemy's in-depth positions, cut the enemy's retreat, block the enemy's reinforcements, and cooperate with frontline units in wiping out the enemy and ensuring the landing of units.

b. Destroy the enemy's missile and nuclear weapon facilities and his command organizations and rear supply.

c. Support the regular units, guerrillas, and militia operating at the enemy's rear.

## 2. Organization and Equipment

a. The "fist battalion" of the Chinese Communist Air Force's airborne forces was established in June 1988. Under the command of the 15th Airborne Army of the Air Force, it is an augmented battalion-level unit composed of 500 officers and men. For air transport purposes it is attached to an air transport division or independent air transport regiment of the airborne forces. For management purposes, this unit embodies the principle of specialization; except for the raising of pigs and planting of vegetables by its companies, it is exempt, without exception, from other work, such as production and construction, noncombatant duties, and odd jobs, so that it can concentrate its time on training. In the allocation of officers and men, the battalion is given priority consideration in order to keep its personnel and equipment up to strength; if anyone wants to get personnel of the "fist battalion" transferred out, he needs to get permission from the higher level leadership organization. It gets twice the amount of training funds

as other units and is given priority in the allocation of training equipment. In training standards, the demands on it are higher than on other units.

b. The weapons and equipment of this unit include mortars, recoilless guns, antitank missiles, antiaircraft machineguns, various types of light weapons, communications equipment, and various kinds of air-dropped equipment.

#### IV. Focii of Training and General Situation in Exercises and Training

In various types of deliberative meetings on the theory of limited wars, the Chinese Communists have preliminarily deliberated on determining the characteristics of the limited wars that could occur in the future: In the central and southern directions, they think that there will be limited wars on a small and medium-sized scale, and that they will occur because of friction and escalation. The scale of these wars will be kept within certain limits and they will be fought on borders and in coastal waters. In the northern direction, there will be wars on a small and medium-sized scale. They are likely to occur suddenly and crack units will be used to fight wars of quick decision. There will be a variety of operational styles, and the scale of these wars will be limited. The "rapid-strike" units that the Chinese Communists have formed basically, in line with the characteristics of limited wars, formulate their training focii and carry out exercises and training.

##### A. The Army's "Special Battalions"

###### 1. Training Focii

a. To understand the enemy armed forces' organization and equipment, operational characteristics, and relevant circumstances; at the same time, to understand the normal deployment and positioning of the enemy's command organizations at all levels and his weaponry of all kinds, as well as the outward appearance and scene they could take on.

b. To master the necessary knowledge of military topography. Fighters must learn map reading and use and must approach predesignated targets independently. Squads and teams must not only learn map reading and use, but must also learn how, by relying on maps, to study terrain and judge the enemy's situation, to draw simple maps and graphs, and other basic skills. Cadres at all levels should learn how to use small-scale maps and study large-scale maps for campaign demolition raids. When possible, they are also required to study the enemy's methods of map reading and use.

c. Much attention in training is paid to the topics of demolition, arson, and mine clearing (laying). All members are required to learn how to use all standard kinds of demolition equipment and to recognize the most effective places for demolition in all kinds of military targets

and manmade features on the earth's surface. They also should, based on the mission they are undertaking, study standard demolition equipment that is lightweight, small in bulk, great in power, and easy to operate.

d. Learning to use all types of weapons. All members must learn to use the infantry light weapons with which they are now equipped and, on the foundation of precision firing, train mainly in point-blank firing and in rapid firing at short-range at targets that appear suddenly; at the same time put stress on night firing training.

e. Enhancing skills and physical training. In the main, this means the training topics of capturing enemy personnel for intelligence purposes, fist-fighting, wrestling, scaling, reconnoitering, swimming across a body of water while fully armed, camouflaging, and surviving in the field.

f. Learning how to use various kinds of technical equipment and materials. For example, taking photographs, operating movie cameras, driving motor vehicles and motorcycles, using transceivers, landing by aircraft, and landing by parachute.

g. Giving prominence to training in squad and team tactics. These tactics are carried out in accordance with the current tactics used by the communist army's reconnaissance fendui for making demolition raids and capturing enemy personnel for intelligence purposes. For the tactical layout, stress is put on long distance, usually more than 10 kilometers. The facilities and situations between the two points are complex, and there must be accuracy in finding the location of points. The battle group usually consists of one team to provide fire cover and one team to make the demolition raid. In addition, there is training in postmission actions.

###### 2. General Situation in Exercises and Training

a. The "rapid-action battalion" formed by the Chinese Communists' "Lanzhou Military Region," in line with the battle situation in the great northwest region and its independent operational mission, conducts its military training in four stages:<sup>1</sup>

(1) Basic training: general knowledge about military topology and communications.

(2) Training in special skills: firing, reconnaissance, capturing enemy personnel for intelligence purposes, clearing mines, cutting barbed wire, scaling, and resisting the enemy's night-vision equipment.

(3) Field quality training: in different terrain and under different climatic conditions—gobi, desert, mountainous area, and plain; wind, rain, night, heat, and cold—training is conducted in motorized movement and rapid marches on foot, night marches, long-range raids, and other ways of moving, fighting, subsisting, concealing, and bivouacking.

(4) Training in being courageous and resourceful and in meeting emergencies: various kinds of difficulties that could be encountered in a future war are posited for the unit to deal with and handle.

b. In October 1988, at a certain place in the northwest, the Chinese Communists' Lanzhou Military Region held a two army, two-sided live exercise codenamed "West 88." Units taking part in the exercise included infantry, artillery, armored, airborne, engineer, and logistics units, as well as Air Force units, with the total number of men reaching several tens of thousands. They practiced how to wage a limited war, and the exercise topics included: airborne and antiairborne operations; Army-Air Force coordinated operations; long-distance combat-readiness marches and attack and defense operations by motorized infantry divisions; infantry-armored-artillery coordinated operations; bridge laying by engineer pontoon bridge units under bombardment by enemy aircraft; assembly of reserve units and putting them on the battlefield; logistics support, medical treatment and conveyance to the rear of wounded personnel, and battlefield services; and command, communication and liaison. The "special battalion" of this military region also participated in this exercise in order to improve its operational capability for coordinating with main-force units in dealing with a limited war.

c. In the initial stage of the formation of its "special battalion," the Chinese Communists' Jinan Military Region first consulted the training data of the special units of a little more than 10 countries and formulated an "experimental plan for training in operating in the enemy's rear." It drew up teaching materials including sabotage operations against targets at the enemy's rear and special demolitions. Afterward, the individual, squad, and company trained in different topics.

(1) Individual: special firing, special demolitions, reconnaissance, traneivers, and other special skills.

(2) Squad: the special operational skills of raiding, ambushing, gathering intelligence, hijacking, and sabotaging important facilities in the enemy's rear.

(3) Company: the independent operational skills of destroying the enemy's strategic and campaign targets and of being able to survive while unsupplied and under all sorts of bad weather.<sup>2</sup>

d. The "special battalion" established by the Chinese Communists' Nanjing Military Region in 1986 completed in March 1987 a year of organization and training. The key topics in this battalion's training period were:

(1) Special war basic training: overcoming manmade and large natural obstacles, including scaling precipices, crossing trenches, crossing rivers, and building bridges.

(2) Field survival training: allaying hunger, including identifying edible plants and animals and catching frogs, snakes, rabbits, fish, and shrimp.

(3) Vehicle driver training: learning how to drive six kinds of vehicles, including two-wheel motorcycles, motor vehicles, tanks, and armored cars.

(4) Weapon operation training: learning how to operate eight kinds of weapons, including heavy machineguns, small cannon, and man-portable rocket launchers.

(5) Special operations tactics training: learning tactics for all kinds of special operations as well as experimenting with methods for attacking the enemy from the sea, land, and air.

e. The "special infantry experimental company" formed by the Chinese Communists' Guangzhou Military Region is the communist Army's only company-level special unit. Its training content includes:<sup>3</sup>

(1) Infantry techniques and tactics.

(2) Reconnaissance techniques and tactics.

(3) Recognition of artillery, engineer, chemical defense, armored, and other arms and recognition of foreign armed forces.

(4) Prominence in training is given to making demolition raids on important military targets in the enemy's rear and on seizing important strongpoints there.

(5) Resisting the enemy's special agent units.

#### B. The Navy's 1st Marine Brigade

##### 1. Training Focii

###### a. Cadre Command Training

(1) Cadres are organized in many forms to study basic knowledge about ships, hydrology, meteorology, and sea charts.

(2) They study the theory of amphibious operations.

(3) They discuss battle examples.

(4) Live exercises are organized for them.

###### b. Enhanced Basic Training

(1) Swimming across a body of water fully armed, diving, finding the azimuth, map reading, capturing enemy personnel for intelligence purposes, crossing obstacles, capturing, fist-fighting, and deep-breathing exercises.

(2) Firing, landing by parachute and by aircraft, demolition, vehicle driving, and vehicle swimming.

c. Emphasis on Comprehensive Exercises

(1) There are separate drills in skills, mainly on solving problems of coordination in driving tanks and armored cars in the sea, driving on reefs and basins, landing troops and embarking and disembarking from vehicles, and seizing beachheads and making landings.

(2) Joint training in tactics, mainly solving problems in infantry-tank-ship coordination, cadres' organization and command, coordinated movements of units, and tactical applications.

2. General Situation in Training Exercises

a. In January 1987 the 9th company of the communist Army's marine brigade, at a certain island in the South China Sea, trained in more than 20 topics, including coordination in air, nuclear, and chemical defense and anti-amphibious operations in order to enhance its field survivability.

b. In March 1987 General Kelley, commandant of the U.S. Marine Corps, visited the Zhanjiang base of the Chinese Communist Navy's Marine Corps, where he observed amphibious reconnaissance forces carrying out technical and tactical training in crossing obstacles, capturing and fist-fighting, two-sided firing, capturing at sea enemy personnel for intelligence purposes, battle-field first-aid, and deep-breathing exercises.

c. In June 1987 a large-scale landing operation exercise was held at a certain bay in the South China Sea, during which the marine brigade of the Chinese Communist Navy dispatched amphibious tanks, amphibious armored transport vehicles, landing craft, helicopters, chemical defense troops, missilemen, and marine infantry. The Navy dispatched ship units and air units. The training topics included ship-to-shore bombardment, warplane bombing and strafing of beachheads, and troops landing by aircraft and ships to seize beachheads.

d. In July 1987 the 1st company of the marine brigade of the Chinese Communist Navy completed 8 days of sea training activities; the training topics were mobilizing, swimming, operating boats, and swimming while fully armed.

e. In December 1987 the amphibious reconnaissance unit of the marine brigade of the Chinese Communist Navy made a 1,700-nautical mile crossing from the South China Sea to North China, where it conducted cold-weather training; the topics included climbing in snowy ground, moving cross-country to make long-distance raids, building defense works, and surviving in the field without food or water.

f. In 1987 two hovercraft designed by the Chinese Communists' Hovercraft Technology Development Corporation were issued to the Navy's marine brigade for

trial use. A squad can ride in one of them, and a platoon can ride in the other. Engineers of this corporation have begun to train marine brigade personnel in hovercraft operation.

C. The "Fist Battalion" of the Air Force's Airborne Forces

1. Training Focii

a. Airborne field training and survival skills training under different terrain conditions in areas of severe cold.

b. Airborne field training and survival skills training under different terrain conditions in areas of extreme heat.

2. General Situation in Exercises and Training

a. At the beginning of 1986, before the "fist battalion" of the airborne forces of the Chinese Communist Air Force was formally established, it carried out various test-training missions and, in March of the same year, for the first time a cold area survival exercise was held. A total of 10 transport planes flew from the interior to the Lesser Xingan Mountains, where training was held in 13 topics, including unit assembly, forced marches over snow, company attacks, and field mess preparation on snowy ground.<sup>4</sup>

b. In August 1986 the first subtropic field survival exercise was held. The site was the Shiwandashan airbase in Guangxi. Training was conducted in the topics of unit assembly, company attacks, long-range raids in rainstorms, and enduring thirst, hunger, and extreme heat.<sup>5</sup>

c. Beginning in March 1988, a 56-day airborne operation exercise was held in an area in central China. The topics practiced included drills in day and night airborne assaults and anti-airborne assaults. Focusing on the hypothetical "enemy's" ports, airfields, missile bases, radar positions, artillery positions, and communication and battle situation command centers, and on mountain passes, bridges, ferries, and other strategic communication points, they carried out airborne assaults, reconnaissance, and demolition.

d. In July 1988 the first plateau field survival exercise was held. The site was the Qingkangcang plateau. The participating units, besides completing airborne training under the natural conditions of oxygen shortage, great temperature ranges, and arid climate, trained in marching with full packs, firing, field mess preparation, and bivouacking.<sup>6</sup>

V. Comprehensive Commentary and Analysis

First, the Chinese Communists think that at present the American and Soviet strengths are roughly in balance, and therefore that the probability of a world war breaking out before the year 2000 AD is quite small. However,

in the situation in the peripheral areas of the Chinese mainland there exist factors that are disadvantageous to China's security: First, the Soviet Union still maintains large forces on the Sino-Soviet border and in Outer Mongolia. Second, India still regards Communist China as a hostile "country" and has garrisoned quite a few troops on the Sino-Indian border. Third, there are still military clashes on the Sino-Vietnamese border and disputes over the islands in the South China Sea. Fourth, the question of reunification has not yet been resolved. Therefore, the Chinese Communists think that in the period before 2000 AD there will still exist the danger of a medium-scale limited war (meaning a war that requires partial mobilization of the military forces of one or two theaters of war, as well as a war of partial mobilization and support) breaking out; and that the probability of a small-scale war (meaning a war that requires only the mobilization of some military forces in one theater of war) breaking out has become great. Based on this viewpoint, the missions that the Chinese Communist armed forces could perform in the future are: "resisting land, sea, and air attacks by hegemonistic countries in a local area; dealing punitive strikes to regional hegemonists; and taking back territory (islands) occupied by enemies." This kind of limited war possesses the characteristics suddenness, short duration, and high technology. Armed forces that are large but technologically backward are unsuitable for this kind of war. Therefore, the Chinese Communists have concentrated their strength on forming rapid-strike units, hoping to be able during a future limited war, with the capability for making rapid strikes, first of all to delay invading enemy forces so that the main-force units will have more time to prepare, or to sneak into or land by air in the enemy's rear and conduct sabotage operations to disrupt enemy forces, which would benefit the large units' operational missions.

Second, the "special battalions" now formed by the Chinese Communist Army have their foundation in existing equipment and personnel, and organic units with strong military and political quality, historical credibility, and mobile sites for deployment were selected to be rebuilt. They were given a special organization, and prominence in their training was given to rapid mobility, flexible guidance, small group actions, and suitability for many types of small battles. The principle of specialization was practiced in their standards for command, management, personnel and weapon allocation, pay, living conditions, and logistics support. It is required that they be organized into groups that are small in number but highly trained, with the battalion or the armored company as the standard unit for convenience in infiltrating the enemy's rear.

Third, guerrilla warfare is the main form of operations in the Chinese Communists' people's war. Today, when they stress fighting a "people's war under modern conditions," the Chinese Communist armed forces should pay a good deal of attention to guerrilla warfare. However, because the enemy who could in the future invade

the Chinese mainland will possess highly modernized combined armed forces with a fairly strong antiguerrilla warfare capability, in wartime the enemy could, in one operational direction, set up antiguerrilla command organizations, and carry out antiguerrilla operations with light motorized infantry fendui and armed helicopters mixed into shock detachments by means of vertical encirclements, firepower shock attacks, and mop-ups. Therefore, the communist Army thinks that the strength of the local militia by itself is insufficient for conducting guerrilla operations, and it expects the rapid-strike units to go deep into the enemy's rear and cooperate with the militia in waging guerrilla warfare, thereby enhancing the results of harassing enemy forces. This is their greatest difference with the rapid-reaction units of foreign countries.

Fourth, the Chinese Communists' organization and training of rapid-strike units to deal with limited wars is a trend in the future development of armed forces. However, looking at the equipment of the rapid-strike units now formed, we see that the heaviest weapon of an Army "special battalion" is only the 82-mm recoilless gun; old-style landing craft and armored transport vehicles are still the means of landing for the Navy's marine corps and the speed of landing is slow; and the means of transporting and delivering the "first battalion" of the Air Force's Airborne Forces are inadequate, because it does not have armored groups, its capability for air transport and for ground mobile operations is limited, and it cannot effectively and rapidly carry out its missions in a future limited war. Therefore, in organizing and training the rapid-strike units, the Chinese Communists say that they must move more toward ground and air mechanization. Therefore, they have bought from America the large CH-47-D helicopter and have improved the Yun-8 transport aircraft in order to enhance their units' air transport capability. They are developing hovercraft and ground-effect air vehicles in order to accelerate the landing speed of their marines. From a look at the situation in which the Chinese Communists are vigorously improving their equipment for the organization and training of the rapid strike units. The nature of these units and the preparations they are making to boost their military strength will produce major effects.

Fifth, some group armies in four military regions—Lanzhou Military Region, Nanjing Military Region, Jinan Military Region, and Guangzhou Military Region—have now set up battalion- or company-level special battalions. The Shenyang Military Region Headquarters and Chengdu Military Region Deputy Commander Zhang Taiheng [1728 1132 1854] had separately suggested the formation of special rapid-strike units that would fight limited wars comprising border conflicts or sudden incidents. The formation of these units has become a trend in the future development of the Chinese Communist armed forces.

Sixth, in line with their real operational capability, the Chinese Communists, analyzing the complexity and instability of the coastal islands, planned to form in the



South China Sea Fleet an amphibious task force composed of an augmented marine brigade, six to eight medium-sized and large amphibious ships, a certain number of medium-sized and large surface ships and submarines, as well as one long-range aviation corps. In accordanced with the plan for formation coordination training, it is required that this task force concentrate on training as a united organic whole. Therefore, in the future the Chinese Communist Navy is bound to strengthen the building of its marine corps as the basic force for dealing with limited wars and sudden incidents in the South China Sea area.

Seventh, the "fist battalion" of the airborne forces of the Chinese Communist Air Force, according to a JIEFANGJUN BAO report, has the capability of getting to any area within the border of the Chinese mainland within about a dozen hours in order to carry out an operational mission.<sup>7</sup> However, Western military experts think that this unit has only 500 men and that it is not of great military value. From now on, to increase the rapid-strike capability of the airborne forces, the communist Army could, with the "fist battalion" as the core, strengthen the capability of other airborne units so that the airborne forces can undertake long-range, rapid operational missions in all directions and in all kinds of weather.

Eighth, the Chinese Communist Navy's ship units and their Air Force's air units have drawn on the the training experiences of other branches and arms of the service in forming rapid reaction units. At the suggestion of Wang Shijun [3769 4258 1498], deputy commandant of the Naval Command College, the Chinese Communist Navy is setting up a rapid-reaction special unit. This unit would be the sea mobile operations forerunner of the Navy's main combined arms group to deal with all the sea wars that could occur in the future. To deal with an enemy's "surgical" air raid on a certain important Chinese Communist target, some people have suggested that the Chinese Communist Air Force's air units set up a rapid reaction unit controlled by the Air Force and by the military region. If these two suggestions are accepted by the communist Army, when the time comes the main operational units of its three branches—Army, Navy, and Air Force—will all have rapid strike units.

Ninth, at present the Chinese Communists' foreign policy emphasizes striving for a peaceful international environment in order to engage in the "four modernizations." Therefore, in the military aspect, they adopt a defensive strategy of active defense, and do not emphasize taking the initiative to start an external war. Therefore, the purpose of their rapid-strike units is to deal with

partial invasions by foreign forces of the Chinese mainland's territory. However, after progress in the Chinese Communists' "four modernizations" attains the expected goals, their military strategy will certainly change to an offensive strategy. At that time, in the adjacent areas of Asia there will probably be Vietnam, India, Japan, Korea, the Republic of China, and the Southeast Asian countries; they will all become the chief targets of the Chinese Communists' expansionism, and the rapid-strike units, which originally were imbued with an extremely offensive nature, will become the task force for the Chinese Communists' external strategy.

#### VI. Concluding Remarks

The goals of military strategy before 2000 AD advocated by the Chinese Communists at present are at the so-called "lower limit, to insure victory in a small-scale war; and at the upper limit, to try to hold back the outbreak of a medium-scale limited war." The breaking out of a limited war is usually fairly sudden, and its scale is usually fairly small. The operational speed and military strength of the traditional large military formations are not completely suited to the suddenness and battlefield complexity of limited wars. Therefore, the communist Army organizes and trains rapid strike units to deal with future limited wars. In the future the operational capability of this kind of unit is bound to be improved in order to provide lessons for the modernization of other units. The development of this tendency will increase the threat to the adjacent areas of Asia and is worthy of the common people's attention.

#### Footnotes

1. Chinese Communists' 18 September 1985 JIEFANGJUN BAO.
2. Chinese Communists' 28 October 1984 JIEFANGJUN BAO.
3. Chinese Communists' 28 January 1985 JIEFANGJUN BAO.
4. Chinese Communists' 31 May 1986 JIEFANGJUN BAO.
5. Chinese Communists' 17 August 1986 JIEFANGJUN BAO.
6. Chinese Communists' 30 July 1988 XINHUA News Agency Dispatch from Xining.
7. Chinese Communists' 14 June 1988 JIEFANGJUN BAO.

## CENTRAL-SOUTH REGION

**Status of Hainan Since Becoming Province**  
*40060558 Hong Kong PAI HSING SEMIMONTHLY*  
*in Chinese No 190, 16 Apr 89 pp 26-28*

[Article by Geng Yan 5105 6056: "The Difficult Manuevres of Hainan; Favorable Conditions Become An 'Indictment' of Zhao Ziyang"]

[Text] **The Provincial Capital of Haikou: Still Backward and Ignorant**

It has now been more than a year since Hainan was established as a province. There was a lot of excitement at the start, but before long it became lonely and silent, much as if people had forgotten about the island, returning again to its former situation of abandonment by people.

Very recently the author spent many days touring this island which attracted so much attention, and which was granted the status of China's largest special economic zone (SEZ) by the central government. This was at the same time that a million young people were starting their disturbances. In the wave of recent developments concerning automobiles on the island there has come much new understanding and knowledge. This makes Hainan's concern about its developmental problems even deeper.

Hainan's provincial capital of Haikou still gives one the impression of backwardness and ignorance, like a rural small town. Although covered with quite a few large buildings, some of them are in strongly contrasting colors, their moldings fresh and moist, and built in a unique style which attracts attention. However, it also leaves people with a feeling that their surroundings are inappropriate, completely out of harmony with the appearance of the city. Speeding along on the peaceful Highway 500, the daily output of small cars of the Duke and Bluebird Taxi System's small cars also offends the eye.

I had no sooner stepped on this island, China's second largest, ruled by the Beijing regime, than I felt that things were not too pleasant. In Hankou, I was talking with a young man about Liang Xiang [2733 3276], the current Governor of Hainan Province. He seemed to have a deep-seated hatred, clinching his teeth when he said, "Shooting Liang Xiang" would be best. When we discussed the reasons for this, I suddenly saw the light: Liang Xiang originally assumed office as Governor of Hainan Province, after "Hainan was established as a province." The central authorities, seeing that Hainan Island enjoyed special policies, and fearing that there might again occur the wild tide of the automobile situation, stipulated that Hainan could import only goods and materials for itself, which could not be re-sold outside the island without exception. This interrupts a beautiful dream some people had of sending part to a seller of foreign goods, and that young man was one of those

people. Due to an inability to do things as before, a leather handbag, a mouth added to an official seal, could conveniently earn massive profits from controlling the currency of people within the nation. The result that made him so resentful and bitter was that these profits reverted to Liang Xiang himself, which people felt was truly wrong.

Hainan's policymakers and leaders view this as most inappropriate conduct for an officeholder. Moreover, as Hainan people, some have a resentment they have never felt before. Although the island of Hainan fully enjoys abundant natural resources, an excellent natural situation and advantageous conditions, still throughout its history there has never been any thorough development, use or construction there. The same kind of destiny also befell Hainan during the initial phase of the mainland regime coming to power. Only in the Cultural Revolution, when Mao Zedong, under the pressure of excess population, sent part of it from the cities to rural areas and other places far from the coast, with his crazed "intellectuals and young people will go to the mountains and the countryside, to be re-educated by the poor peasants," was "attention paid" to Hainan, using it as a settlement for a million young people.

### The Island Residents' Futile Hopes

The multitude of young people with their boiling ardor not only brought no new changes to Hainan, they actually left the people of Hainan in more arduous circumstances than before. The tillable land on the island was already limited, with the amount of food produced only enough for self-sufficiency, so that the sharp rise in population created a real food problem for Hainan Island. Under the great mass fervor for planting rubber and coffee, "all economic crops are under the unified purchase of the nation," natural resources which they didn't have before were damaged, which brought no economic benefit to Hainan itself. Hainan residents required state fiscal subsidies just as before, before they could make a living, and the minority peoples in the mountains lived in thatched huts, just as always, in slash-and-burn cultivation. The people could only cherish the memory of the time when they could loudly cry out in their suffering for the nation to pay some attention to the "heroism" developed by Hainan Island, and seek some comfort in their spirit.

In 1983 and 1984, along with the initial successes in establishing the noted Shenzhen and Zhuhai Special Economic Zones, Deng Xiaoping also carried on Mao's style, his brain afire with proclaiming that 14 coastal cities and Hainan Island would also be opened to the outside. To tell the truth, this was at the outset a good thing for Hainan, but because of their people being sealed off for too long, there was a basic lack of understanding of what opening to the outside meant, or how to go about it, and they were confused by the fuss the outside world made about it. In a short while, they could only blindly try to profit from importing foreign goods,

the entire mainland striving to control the problem of the economy and foreign exchange getting out of control. Hainan also fell behind not of its own accord. In this "farce," Hainan played the lead role. Later, it again became a target of public criticism. Hainan's fervor at that time, along with that of the Hainan news personality Lei Ning [7191 1337], was censured and told to lower the temperature, while still having to bear all its burdens, both great and small.

Right up to last year, China had been open to the outside for nearly 10 years. Hainan's opening to the outside and its construction was once again put on the agenda for adoption by the National People's Congress. From the first, Hainan Island's development had taken so long because of that body refusing to budge, continuously refusing to deal with the question of establishing a Hainan Province or making it a special economic zone, the direction on which the central authorities had decided. The residents of Hainan at this time were very happy, and everywhere could be heard the sound of firecrackers, with people rushing about spreading the news, and raising their glasses in celebration. But good dreams don't last long; Hainan had not been a province long before it encountered a large-scale, national, all-project, ordering and harnessing of the economic environment, with the result that Hainan's construction once again fell into dire straits.

#### **Before Becoming a Province, There Was Always a Stress on Having Privileges**

However Hainan is constructed, the special attitude which central authorities have towards Hainan is reflected in the policies and conditions it has granted to the island. These have all made Liang Xiang and his team want to choose for Hainan's development significant people who will study as well as discriminate. But in the present situation, these questions are those which an individual region's responsible persons cannot control on their own initiative. They can only act according to orders handed down from above; and thus the road to Hainan's construction has been littered with setbacks.

A provincial government official pointed out that during the ferment over the establishment of Hainan Province, the central authorities, and especially Zhao Ziyang, took into account such factors as Hainan's basic shortcomings, its layer upon layer of economic difficulties, and its low starting point for handling SEZ status. So, wanting to create the conditions for attracting investment as quickly as possible, they promised to grant Hainan preferential policies different from those of other places in China. In actuality, during the course of preparing to establish Hainan Province and during the initial period of the provincial government, the Hainan or Beijing side's approach to the news media or towards visiting foreigners, all along stressed only that Hainan would have special privileges. According to what was understood at that time, the central authorities handed down the corresponding policies for making Hainan attain the goal of

being a "small government, great society." As for Hainan's general affairs, other than those handled on the national level, everything was handed over for Hainan Province itself to manage. In order to raise both Hainan's ability to act on its own and its rate of operational efficiency, the central authorities tried to interfere as little as possible. In addition, customs, finance, foreign trade and their investment aspects, were entirely given over to the province's care, to enable Hainan to start developing rapidly under flexible policies. Many people feel even more strongly that Hainan will ultimately do a booming business in importing foreign goods and exporting "water products," and in this way amass the funds for the initial stage of construction.

All the island from top to bottom at that time, including the many people who thought Hainan could do a booming business in foreign trade, and even some of the responsible people in the provincial government, understood that although Hainan Island was designated an SEZ, in its geographical situation it is less favorably situated than are Shenzhen or Zhuhai, and even less than Shantou and Xiamen. Because these other four SEZ have such conditions as relative proximity to Hong Kong and Macao, a large labor force and a definite industrial base, all of which Hainan lacks, Hainan essentially cannot share in the profits of the "three forms of import processing and compensation trade" cooperation with foreign nations and the SEZs at the Pearl River delta. Actually, carrying out joint ventures by the "Three...compensation" trade model, and by this means accumulate funds for construction, is something that Hainan cannot do, or would find very difficult, due to the low level of its administration. In a situation where the central government has made little investment, doing well in foreign trade or the "inner alliance" manner, requires first of all establishing the necessary base within a certain area of Hainan. This is essential. Moreover, Beijing also really secretly endorses or accepts that Hainan handle it this way.

#### **Looking At One Example of Zhao Ziyang's Rash Advance**

Last year, Hainan utilized the convenience of being a province, its possession of preferential policies and favorable conditions to do quite a bit of export business. Many provinces and cities on the mainland one after another arrived in Hainan to register and establish businesses, seeking profit for themselves. This gave Hainan the appearance of a peaceful scene. Statistics show that up to the end of last year, Hainan's inner alliance enterprises registered capital in excess of RMB 5 billion yuan. In addition, the monetary volume related to contracts concluded with foreign firms for jointly-funded ventures reached the enormous sum of \$400,000,000.

However, this was just the situation that prevailed during the first half of last year; starting with June, there was unprecedented runaway inflation on the mainland,

with the whole nation at all levels commonly practicing opening up prices and going all out to "grandfather" business, to the point of creating chaos throughout the entire nation. Cries of complaint were heard from the common people. During this time Hainan kept on blindly importing, creating a huge overstock, so that older people blamed and complained about Zhao Ziyang. The opening up of Hainan Island was also regarded as one of the "offenses" of Zhao Ziyang's reckless rush ahead. From the end of last year on, there was even more unrest and troubles on Hainan; influenced by the rectification of the economic order, foreign investors hung back, and the other provinces and cities on the mainland did so even more because banks tightened up credit, and hurriedly recalled the funds they had already put into Hainan. The problems and difficulties faced by Hainan were well known. In the words of the people of Hainan, it was like a rooster being clamped by the throat just as it was getting ready to crow.

As for Hainan, which desperately needs the funds for large-scale construction, having no money is equivalent to not having anything. Moreover, their situation was not the same as Shenzhen at that time, which could rely on Hong Kong to get some foreign exchange. A high-ranking Hainan official disclosed that the annual state subsidy to Hainan was only RMB 2 billion yuan, and for an island the size of Hainan that is no more than money for fuel. Of this sum, nearly half was used as Hainan Island's annual fiscal subsidies. Those who can take advantage of the subsidies provide part of the agricultural and industrial loans and necessary expenses. For those who cannot, administrative and official business expenses become a problem. Although Hainan is not now poor and blank, still as an economic SEZ it is far from having the investment environment investors demand. A U.S. company, which studied investment in Hainan, demonstrated if one wanted to invest in Hainan, an optimistic estimate is that this would be a five year matter. Without investment, Hainan can only sit back and wait.

It was not until the hardships showed up this time, that it was known how inferior was Hainan's true situation. In the capital of Haikou, there was not one road with a signal light at an intersection, and the roads were narrow and crowded. Telephones were inconvenient, much as in Shenzhen in those days it appeared that "in doing business, a bicycle is faster than the telephone." The water supply for restaurants was barely sufficient at intermittent times, and the supply of electricity was barely enough for use in lighting. Restaurants still do not have enough electricity for what they need, and the water supply situation is not optimistic. Moreover, in Hainan today there is an erratic level of quality among cadres at all levels, with the majority lacking the basic level of culture and any genuine abilities. All of this hinders Hainan in developing cooperation and contacts with foreign nations. The intangible and tangible conditions for investment consistently do not complement one another, the conditions for a better life are lacking, and

it is hard to attract manpower. If the environment is to improve, then a great quantity of investment is needed. If the tiny city of Shenzhen required nearly RMB 9 million yuan for its construction, it is not difficult to figure out what would be needed for Hainan, an island nearly 200 times larger. A Hainan provincial official estimates that any annual investment of less than RMB 10 million yuan would be insufficient.

#### Current Conditions Present a Dilemma

These current conditions on Hainan are obviously clear to the Beijing authorities. Formerly, Vice Premier Tian Jiyun [3944 4764 0061] had led an inspection group to Hainan, to resolve the island's developmental conditions and problems. It is said that while on Hainan Tian expressed no opinions whatever, whereas the Hainan people had placed their great hopes on him, hoping that Tian could speak to them and display his mastery of the real conditions on Hainan. But the reality of the situation caused them to lose hope. During Spring Festival this year, Zhao Ziyang was in the south at Zhuhai, and summoned two others there, Xu Shijie [6079 1102 2638] and Liang Xiang. He listened to a report on the Hainan developmental situation, while Liang and Xu were also briefed. The Beijing side now has some opinions concerning Hainan.

Zhao Ziyang told the two representatives Liang and Xu that the nation's policy of opening to the outside is unchanged. The nation has ten years of effective results in openness, still it is difficult to avoid the fact that there are weaknesses and faults. Although weaknesses and faults do exist, the road back absolutely cannot be taken: the building of Hainan Island will continue, the central authorities' policy towards Hainan will be unchanged, and it looks like Zhao's words have given the people cause for optimism. But the people of Hainan are realistic: they realize that this large and wide a general survey is totally vacant, and lacks relevance to the realities of Hainan. At the meeting in which Liang Xiang communicated his findings to Zhao, he appeared to those in attendance to be disappointed. At the same time they felt that Zhao had encountered some resistance and censure in opening up certain questions.

A secretary in the government told this writer that Zhao had previously given total consideration to Hainan, such as permitting export advertising, preferential treatment in foreign exchange and some administrative reforms, giving total support without exception. But this time he acted out of character concerning some of Hainan's real problems: in such specific areas as reserving foreign exchange, using foreign investment for partial development and foreign investment banks to set up RMB [renminbi] businesses, etc., in all cases he gave no clear response. His attitude was equivocal, seeming to Liang Xiang and others as if he had lost all judgement of his own.



Hainan's present condition is something of a dilemma. Funds are inadequate for an overall improvement of construction and the environment. However, neither the central or the local government has any sound resolution to the funding problem, while construction on Hainan cannot simply stop. The result is that they again are not taking advantage of international opportunities, and Hainan's construction will fall even further behind than it has already. Not long ago Xu Shijie made a visit to Singapore, to learn from Southeast Asian nations such as Thailand and Vietnam how to develop rapidly in regards to opening to the outside. Because these nations and other developing and Third World nations commonly have advantageous conditions, plus maximum support from their governments, they are moving ahead at a faster pace than is Hainan. Under equal conditions, if Hainan does not rouse itself to catch up, accelerating the improvement of the investment environment, attracting investment momentum, then it will be superceded by nearby regions and nations.

#### **Carrying Out Foreign Capital-Based Development**

One could say that it is out of desperation that Hainan Province is considering starting out on large-scale development using foreign investment as the focus. They have already announced that their new program will develop the Yangpu area. The Yangpu area borders on the Beibu Gulf, near to some fairly rich natural gas reserves, and oil fields worth exploiting. In addition, there are abundant mineral resources, which have made this region's development an important condition for the chemical and salt industries. Hainan Province's plan will make this region into a 100 square km zone, generally developing with foreign businesses. It is the intention of the plan that Hainan Province's sovereign rights over this zone will be only in such aspects as customs, administration of justice, tax collecting, external affairs, management of underground resources and national defense. Moreover, under the premise of complying with the set of rules which Hainan has formulated for this developmental zone, foreign businesses will enjoy the greatest self-management powers, including the plan's blueprint for the developmental zone, industrial layouts, attracting projects, etc. Materials and end products will all circulate on the "much in, much out" management model.

It is reported that this zone has now been drawn out to a 30 square km area, and there are preparations to give developmental and managerial responsibility to Japan's Kumagaya Group.

In view of the fact that they are opening up a large area, the reciprocal problems are complex, and difficult to make any forecasts or guarantees. So Hainan, in carrying out this development, generally uses compensatory "preferential" measures, to guarantee profits to investors. They are now selling off a part of Hainan's natural resources or giving investors some control of projects which will ensure them profits. Central departments are quite divergent in their views of this method, with some

in the leadership expressing opposition. They believe that this sort of procedure is selling sovereign rights and is a revised version of the "new concessions."

The dispute in the government aside, this plan still has a great many problems with it that will be difficult to resolve. For example, within the region there are a variety of facilities such as electricity, water, communications, highways and factories, which present supply and demand problems. Take, for instance, building a power plant: there are not enough factories in the region, so not all the electricity can be used, which gives rise to problems with return on investments. Moreover, within the zone, distribution between investor and industry is limited by the international environment and demand. These are things beyond human control. Another concern is that within the region all management is profit centered, which is bound to lead to all the usage of each facility be paid for. But this could lead to investors who might be interested in investing in the region being frightened away by high costs. It could also offset Hainan's favorable conditions, and how can that attract investors? As far as Hainan's provincial officials are concerned, they have no specific ideas or means of resolving these problems.

Actually, up to now there has not been a nation or region where the state or the government establishes a processing or industrial zone while not spending even one fen on it. Hainan is a special zone, and its present situation is totally unique. Whether it can create something unfamiliar and different remains to be seen.

The majority of what has been related so far has dealt only with the thoughts and concerns of provincial officials; but what about the life, the thinking and the attitudes of the average person on Hainan? The writer was able to spend several days looking into this.

#### **Flourishing Illicit Activities Embarrass Hainan Officials**

In the days I spent in Hainan, my deepest impression was of the problems within the social atmosphere. This is something that I fear could affect anyone upon seeing for the first time the ignorance, the backwardness and the novel, mutual exclusions, while uncoordinated contradictions emerge. Take Haikou as an example: the city still appears to be totally backwards, in everything having a strong small town aura; one seldom sees a modern building, while on the road one often encounters bicycles which have been refitted by the owner, and motorcycles equipped with sidecars seating three people and goods. One sees low, one-story houses, while the people's clothing is very inferior to that seen in Guangzhou or some other cities which are economically better off. Everything demonstrates that there is a great gap between the standard of living for people in Haikou and the modern standard. But there is another aspect: in the bustling streets and in the doorways of the large bars, black market foreign exchange is bought and sold, unlicensed

prostitutes draw in their customers, streetwalkers block the roadways, nearby stalls for treatment of venereal diseases look as if they operate by divination, while sales of contraband goods can be found everywhere. Even more amazing is that Haikou has nightclubs similar to those found in Hong Kong, as well as dance halls and privately-operated massage parlors, where unwholesome video tapes are shown to individuals.

A friend told me that the girls seated on the dance hall platforms were the best at their business, and that the business conditions in the halls were the same as in a Hong Kong nightclub. The girls take their lead from the "Mama-san," and keep the customers company for a price which varies from RMB 20 to 50 yuan per hour. A girl may do more than just dance with a customer who takes a fancy to her, and still not satisfy his brotherly feelings. If a customer really likes her, he may take her out of the hall, to do what he wants. I heard that during last year's fervor over Hainan many young men and women rushed to the island seeking their fortune. However, when they discovered that the ideal did not accord to reality, all split up to return to where they came from, but quite a few stayed on in Hainan. The people of Hainan say that the men who stayed on either "manage" or run small stalls, while the women work as prostitutes. Naturally, their employment is not completely like this, but it is true that regardless of whether they are the young women blocking the streets, the dance hall girls, or the girls in the massage parlors, the great majority are from outside the island.

Speaking in one sense, these illicit activities are useful in improving the Hainan economy, but they give visitors from outside an absolutely disgusting impression. At the same time they also give the Party authorities in Beijing an excuse for rectification. It is reported that when Zhao Ziyang called in Liang Xiang, he proposed that Hainan clean up the massage parlor mess as soon as possible, along with its social atmosphere. This is the problem that Tian Jiyun reported to the central authorities after he had made his inspection tour of Hainan. This puts the Hainan provincial government in a difficult and embarrassing position. At the National People's Congress there was unanimous criticism that the social atmosphere on Hainan had changed for the worst. Therefore they immediately brought in a batch of projects, and selected those for the Party authorities to turn over to the people of Hainan. However, it appears as if these have not really been something which the Hainan government can develop very widely in economic construction.

Development in Hainan faces contradictions and funding difficulties in capital construction and in the powers granted by the government, and whether the Hainan fervor set off in the preceding phase can be maintained. These are problems not only for Hainan itself, but are of relevance to the political and economic "climate" for the entire mainland as well. It certainly does not appear optimistic.

## Hong Kong's Reaction to Beijing 'Massacre'

### Confidence Falls to 'Lowest Level'

40050571a Hong Kong MING PAO in Chinese  
16 Jun 89 p 1

[Special dispatch: "Poll Taken After Imposition of Martial Law in Beijing Shows That Confidence of Hong Kong People Has Fallen to Lowest Level"]

[Text] The imposition in Beijing of martial law and news blackout has caused a big drop in the confidence of the people of Hong Kong about the future. According to a poll taken by the Hong Kong Market Research Society 7 days after the proclamation of martial law, Hong Kong's political and economic indices within one month have abruptly deflated four percentage points, the political confidence index dropping to its lowest level since the signing of the Sino-British Joint Declaration.

Beijing imposed martial law on 20 May. On 26 and 27 May the Hong Kong Market Research Society sampled by telephone 522 Hong Kong city residents from 15 to 64 years old. The results showed: the political confidence index of the Hong Kong people dropped from 89 points a month ago (21 to 29 April) to 85 points, and their economic confidence index dropped from 101 points a month ago to 97 points, lower than the economic confidence index after the stock market crash in 1987.

This poll, which this newspaper supported, has been conducted once every quarter-year since January 1985, and the extra poll taken after the imposition of martial law was the 19th poll. The base for the political and economic indices was set in the first poll at 100.

After the imposition of martial law, of those polled, the 60 percent who expressed confidence in Hong Kong's future in April dropped to 52 percent; and the city's residents who expressed no confidence in Hong Kong's future rose correspondingly. The confidence of three categories of those interviewed—women, teenagers, and families with an annual income of HK\$7,500 or higher—was most shaken.

With regard to economic confidence, the number of people who viewed the state of Hong Kong's economy favorably dropped, while the number of people who took a pessimistic attitude about it rose. The number of people polled who thought that the present state of Hong Kong's economy was good dropped from 42 percent in April to 39 percent; the number of people who thought the state of the economy was mediocre fell from 52 percent to 48 percent; and the number of people who thought the current economy was not good rose from 7 percent to 11 percent.

Looking at the future of Hong Kong's economy, 33 percent of those polled thought it would take a turn for the worse, and the number taking this attitude, as compared with the last poll, rose 10 percentage points;

the number of people who thought that the economic situation would not change also dropped—from 51 percent in April to 41 percent; and the number of people who thought that the economy would continue to improve dropped 2 percent, being 24 percent in May.

The people polled did not think that there would be a major change in their individual financial situation. Of them 56 percent believed that their individual financial situation would not change; 15 percent believed it would change for the worse; and 27 percent thought it would improve.

### 'Stability' Desired

40050571c Hong Kong MING PAO in Chinese  
23 Jun 89 p 1

[Special dispatch: "Recent Poll After the Beijing Massacre: Hong Kong People's Confidence Tumbles, But the Majority of People Are Willing To Stick to Their Posts"]

[Text] A recent poll shows that even if the confidence of the Hong Kong people was dealt a severe blow after the incident of bloody suppression occurred in China, the great majority of them (97 percent) are still willing to stick to their posts and maintain Hong Kong's stability and prosperity.

The results of the poll also showed that if the people of Hong Kong had the right to reside in Britain, this would be a big help in restoring their confidence in the future, but that actually only a tiny minority (6 percent) would migrate to Britain.

The confidence index set by the Hong Kong Market Research Society, which conducted the poll, fell to its lowest level since 1985, namely, 82 points. However, if Hong Kong people were to get the right to reside in Britain, the confidence index would rebound to 97 percent, which would be the highest level since 1985.

The base for the confidence index was set in January 1985 at 100 points. In this poll, which this newspaper helped take over the past two days, was a random sampling by telephone of 1,000 Hong Kong city residents aged 15 and older.

The results of the poll showed that, with the present situation in China, 97 percent of those polled indicated that they would stick to their posts and maintain Hong Kong's stability and prosperity; 84 percent indicated that they would try to get the right to reside in Britain; and that 80 percent indicated that they wanted the pace of the democratization of the Hong Kong political system to accelerate and would take positive actions to achieve this, and that they supported the democracy movement in China.

As for Hong Kong's future, 48 percent of those polled expressed confidence; 47 percent expressed no confidence, but if they got the right to reside in Britain the

number of them having confidence in their future would rise to 71 percent and the number of them still having no confidence in their future would fall to 23 percent.

Of those polled 60 percent said that after they got the right to reside in Britain they would remain in Hong Kong; only 6 percent said that they would migrate to Britain. Another 18 percent indicated that they would migrate to another country, and the remaining 16 percent did not know what they would do. T'an Wang-ming [3389 3769 7686], the convenor for the Nationality Law Support Group of the administrative and legislative councils, said that the results of the poll truly reflected the opinions of the residents of Hong Kong. She will notify the two chief members of the councils, who are now in Britain drumming up support for the right of the Hong Kong people to reside there, of the results of the poll, so that when they meet with the prime minister and the foreign secretary they will report the results to them.

She added that, looking at the results of the poll, 97 percent of Hong Kong residents now say that they will stick to their posts and maintain Hong Kong's prosperity and stability, and that this is obviously their resolute will.

Teng Kuo-chen [6772 0948 2823], chairman of the Hong Kong Lawyers' Association, said that the results of the poll show that 82 percent of the people of Hong Kong think that the pace of the democratization of the political system should be accelerated and that this reflects the Hong Kong people's aspirations, and therefore he hopes that in 1991 half of the Legislative Council seats will be decided by elections.

### **Joint Declaration Reviewed**

40050571b Hong Kong MING PAO in Chinese  
13 Jun 89 p 4

[Article by Wu Ai-i 0702 7224 0308: "The Joint Declaration Must Be Reconsidered"]

[Text] After the big massacre on 4 June, the hearts of the people of Hong Kong were like seething caldrons, and they bitterly hated and detested the Beijing regime. Thinking of Hong Kong's future, they unanimously said: "Hong Kong cannot be returned to this group of butchers who slaughter people!"

In fact, not only Hong Kong residents think in this way; countless people in Great Britain do also. Then, should the British prime minister immediately announce the termination, cancellation, or freezing of the Sino-British Joint Declaration? Some people think that we should not count on her immediately revoking the agreement to return Hong Kong, but that she should immediately announce a postponement of the date for the return in order to slightly alleviate the anxieties of the people of Hong Kong about the future.

However, the timely announcement of the termination of the the Sino-British Joint Declaration would not necessarily have the result of reassuring people here. The immediate reaction of Beijing—this insane regime—could be to promptly retaliate against Hong Kong, and even announce that such being the case, the Sino-British Joint Declaration is no longer effective and the Chinese government would then have the right to take back Hong Kong at any time and not give it special treatment. This reaction would certainly further alarm the Hong Kong people, and Hong Kong's internal and external investments could be adversely affected.

It would obviously be highly risky for the British government to unilaterally tear up the Sino-British Joint Declaration straightaway, and postponement of the date of execution requires more talks by the two sides that made the agreement. At this time, talks with the Beijing regime will naturally lead to no good results. "Problems left over by history" need to be solved, but the Hong Kong people's worries and apprehensions must promptly get the authorities' attention, and the British government and the Hong Kong government have the responsibility to come up with a surefire plan for the people of Hong Kong.

I think that the British government should first of all take a stand that puts the guaranteeing of the security and freedom of the people of Hong Kong in first place. Because of this stand, it would at this juncture no longer be able to insist that, no matter what, Hong Kong will be returned to the Beijing government in 1997, and it would no longer be able to dismiss the possibility of an overall review and discussion of the Sino-British Joint Declaration.

The British government does not need at present to announce what decision it will make on the Sino-British Joint Declaration, because the internal struggle in the Beijing regime is still unclear, and for the moment it is difficult to decide what would be the most suitable method for dealing with this emergency. In the most optimistic scenario, if the Li [Peng]-Yang [Shangkun] clique were to quickly fall from power and enlightened reformists were to take charge of the overall situation, there would then be the possibility that the people of Hong Kong, when the time came, would be content with Hong Kong's return to the mainland as scheduled. If, unfortunately, this brutal regime remains in power and knocks down those who voice opposition to it, then if the British government insists on returning Hong Kong on schedule, which would be as good as sending the people of Hong Kong as sheep into the tiger's mouth, then it would be acting against conscience and justice and it would be irresponsible.

What the British government must now do is reassure the residents of Hong Kong that it will not force on them the agreement signed in 1985, under which they would be delivered into the hands of the butchers.

Second, the British government should separate the territory from the people. Even if Hong Kong's territory has to be returned to the Beijing regime, the people of Hong Kong should have the right to choose whether they are willing to remain in Hong Kong and be under the Beijing regime's jurisdiction. At present the great majority of the people of Hong Kong have not the slightest choice because they do not have the conditions to migrate; the British government must provide appropriate outlets for the Hong Kong people.

One outlet is to restore to the more than 3.2 million Hong Kong people who have British subject status of the right—which they enjoyed before 1962—of residing in Britain. At the very least, it should let these people enjoy the right to enter Britain's borders; just in case the situation in Hong Kong worsened, they could at any time temporarily flee to Britain, where arrangements would be made for them to go to another place or to reside in Britain permanently. The Iron Maiden probably thinks that more than 3 million is an "enormous" number of people, but this action is a moral responsibility of the British government that is difficult to shirk.

This way out cares only for those Hong Kong residents who are British subjects, including people who have proof of birth in Hong Kong or people who have gone through the procedures to get Hong Kong British subject status. Among the remaining more than 2 million non-British subjects, there are many true Hong Kong people, including many who in the fifties or in 1962 were among the tide of fugitives who fled the mainland. For several decades, they have done diligent and conscientious work here and have made a contribution to Hong Kong. Although not bigwigs, they likewise are loyal residents of

Hong Kong. Once Hong Kong falls into Beijing's tyrannical hands, it is difficult to imagine what the fate of these people will be. If they seek refuge on the raging sea, I am absolutely convinced that they will fit the international treaty definition of "refugees."

The Hong Kong government and the British government have a responsibility for and the duty to help these people of Hong Kong, and should take the initiative to bring about discussions in the United Nations in order to seek protection for them against persecution and give them a place to go to.

Some people say that if Britain does not take in the people of Hong Kong, then it should arrange some corner of the world for them to stay at their own expense as a place to which they could migrate, and that this would be better than leaving them to face an unfathomable fate here. At first hearing, this suggestion seems difficult to implement, but if there is no other way, it should be given serious consideration.

In brief, immediately terminating the Sino-British Joint Declaration is not a good thing to do, and it is also not necessary. However, the British government must guarantee that it will not, regardless of everything, implement the agreement as originally intended, and must now begin to make all sorts of plans in case the situation in 1997 worsens, and come up with ways to meet the emergency, so that when Hong Kong's territory is returned the people of Hong Kong will have a way out to escape with their lives and keep their security and freedom. If the British government does not more vigorously assume its responsibility, when some day a "Tiananmen" incident occurs in Hong Kong, it will be difficult for the Iron Maiden and Foreign Secretary Howe to escape blame.